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ABSTRACT

The Small Business Learning Group Program, which is known by its Indonesian initials KBU (Kegiatau Belajor Usala), was undertaken as part of the Indonesian Third Nonformal Education Project. The KBU program was designed to promote local development of microenterprises through nonformal education. The KBU program's impact was assessed in a comprehensive summary evaluation during which data were collected regarding 57 KBU groups in 8 provinces. Data were collected through field visits to the KBU sites and surveys of KBU staff and consultants. As of fiscal year 1997-1998, 1,500 KBU groups had been formed in 18 Indonesian provinces under the tryout system. Of the KBU participants, 75% were women and 67% were between the ages of 12 and 20 years. The program was credited with doing a much better job of reaching poor women than its predecessors did. The most common type of product produced by the microenterprises resulting from the program was snack food sold in local markets, door to door, or in small retail outlets. Of the KBU participants, 58% had dropped out of elementary or secondary school. (Appended are the following: field notes, field interview guides, and consultant survey questionnaire.) (MN)

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ED 430 117

Dikmas KBU Program Summary Evaluation:

An Evaluation of Non-formal Education and the Development of Microenterprises in Indonesia

February 26, 1999

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Third Non-formal Education Project

U.S. DEPARTMENT OF EDUCATION
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Table of Contents

1.0	Introduction		1
	1.1	Purpose of Report	1
	1.2	KBU: A History of Evolution	1
	1.3	NFEIII: Getting Out of the Lending Business	2
	1.4	Impact Evaluation of the KBU Component	3
	1.5	Current Scope of the KBU Effort	4
2.0	Methods		5
	2.1	Overview	5
	2.2	Fieldwork	5
	2.3	Dikmas Survey	5
	2.4	Consultant Survey	6
3.0	Results		7
	3.1	Did the KBU program reach the intended target population?	7
	3.2	What types of micro-enterprises developed under the KBU program?	9
	3.3	How effective were the Technical Resource People (TRPs) who were assigned to assist the groups?	11
	3.4	To what degree was the KBU program successfully linked to other components of NFE III?	14
	3.5	What economic impact did the KBUs have?	16
	3.6	To what degree were KBU's able to contribute to lifting members and their families out of poverty?	19
	3.7	What characteristics were associated with successful groups?	24
4.0	Recommendations: Investing in Success: A new strategy for Dikmas KBU Development		29
	4.1	Overview	29
	4.2	Rationale	30
	4.3	Management of the new program	31
	4.4	Financial support	31
	4.5	Extending learning	32
	4.6	Protecting program integrity	33
	4.7	Program summary	35
	4.8	Management information system for monitoring And evaluation	39

Appendices

Appendix A: Field Notes
Appendix B: Field Interview Guides
Appendix C: Consultant Survey Questionnaire

1.0 Introduction

1.1 Purpose of Report

The purpose of this report is provide a comprehensive evaluation of the current Small Business Learning Group Program, which is known by its Indonesian initials KBU (Kegiatau Belajor Usala), in the Indonesian Third Nonformal Education Project (NFE III) and identify policy implications for future micro-enterprise programs within the Directorate of Community Education (known as Dikmas) in the Ministry of Education. To achieve this purpose the report weaves together data and findings from several different evaluation efforts, that are described in detail later. This report attempts to answer the following evaluation questions:

1. Did the KBU program reach the intended target population?
2. What types of micro-enterprises developed under the KBU program?
3. How effective were the Technical Resource People (TRPs) who were assigned to assist the groups?
4. To what degree was the KBU program linked successfully to other components of NFE III and to other sources of micro-enterprise credit?
5. What economic impact did KBUs have?
6. To what degree were KBU's able to contribute to lifting members and their families out of poverty?
7. What characteristics were associated with successful groups?

1.2 KBU: A History of Evolution

The PNF III KBU component was shaped in reaction to an analysis of the KBU program in PNF II. At the conclusion of PNF II the Project Completion Report: Indonesia: Second Nonformal Education Project, recognized that "there have been positive impacts on participant's economic circumstances..." made a number of criticisms of the "Income Generating Component" particularly the KBUs.

> "...there was an issue on effective targeting of the poor households and women as the program may not have reached the poor because of the emphasis placed on repayment and revolving of funds. The main problem identified in the field by the completion mission were: inadequate book-keeping by learners; lack of logistical support to cope with the wide coverage....; poor monitoring of payments and ineffective sanctions on members who fail to repay....." (pg. 10)

To address the problems with lending in preparation for NFE III a review of available credit programs for Micro-Enterprises was conducted which identified three potential sources: existing Credit Unions, BRI both it's own program, and the existing KBU program, and Lembaga Dana Kredit Pedesaan. This same review declared the BRI program a success reporting that "as of December 1990, about 6,300 Kejar Usaha groups representing about 30,000 individuals has received Kupedes loans totalling Rp. 2 billion (about US $ 1 million), for an average loan size of Rp. 320,000 or about US$ 165 equivalent per group. Claims against the collateral deposit fund total Rp. 156 million about 8% of total loans made."[1]

1.3 NFE III: Getting Out of the Lending Business

The *Staff Appraisal Report* (SAR) for NFE III[2] made no mention of direct lending by Dikmas to KBUs. It required the KBU program to promote NGO involvement at the local level. According to the SAR the project would assist KBUs "to choose an appropriate amount and source of credit". It recommended that field staff and NGOs connect KBU to local sources of credit and allocated funds that could be given to groups as in small amounts as "learning funds" to help them purchase materials and tools necessary to learn skills.

In practice the revolving loan fund from BRI continued to provide financing for KBU groups, using the Dikmas guarantee. Few connections were made to other sources of credit. Support other than the loan was reduced to three days of training for the KBU groups in business skills.

In the fall of 1995 a World Bank mission recommend the KBU program be restructured and operate as a "Try-out Pilot Program" for balance of NFE III. Guidelines reflecting changes in the pilot were drawn up and beginning in June 1996 the "Try Out" program was underway. Under the "Try Out" each group member would receive as a grant Rp. 20,000 in learning funds. In addition to the learning funds the program supported the KBU by providing a technical resource person (TRP) who was paid Rp 120,000. This program called on Dikmas staff to work aggressively to link KBU groups with existing sources of micro-credit, from either other government programs or NGO programs.[3]

Since 1996-97, NFE III has conducted the "Try-out KBU" program. The key features of the program were:

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[1] *Indonesia Third Nonformal Education Project. Income-Generating Activities (Kejar Usaha) Providing for Credit Needs of Kejar Usaha Members.* Undated, unsigned World Bank Document

[2] *Staff Appraisal Report Indonesia Third Nonformal Education Project*, Nov 8, 1991, Population and Human Resources Operations Division, Country Department V, Asia Region, The World Bank.

[3] *Technical Guidelines for the Tryout of the Implementation of Small Business Learning Groups*, Ministry of Education Culture, Directorate General of Out-of-School Education, Youth and Sport, Directorate of Community Education, 1996-97.

- ✓ Assigning a paid (Rp. 250,000) Technical Resource Person to each KBU formed to provide advice and coaching to the members for six months.
- ✓ A learning fund of Rp 25,000 for each learner, raised to Rp 50,000 in FY 1997-98, which did not need to be repaid.
- ✓ A continuing focus on linking KBUs other sources of micro-enterprise credit.

The program began in 1996-97 in 12 provinces, with 1,500 KBUs formed including 7,500 members, by 1997-98 in grew to 18 Provinces with 4,500 KBUs and 22,500 members. In 1998-99 Dikmas planned to form 11, 825 KBUs.

1.4 Impact Evaluation of KBU Component

An impact assessment of the KBU program was completed in 1997[4], as part of a larger impact of assessment of PNF III. The project collected data in 30 randomly selected intensive kecamatans. The evaluation is based on a survey of 643 KBU participants 116 of who classified themselves as leaders of a KBU. The respondents represented groups formed between 1992 and 1997 thus these groups had been subject to wide variations in the policies under which they were formed. Descriptive data show that almost two thirds of participants were women with an average of 32.2. While the KBU program is targeted at poverty populations only an estimated 26% of participants were in poverty. Participants also reported a relatively high level of education. Almost a quarter had completed senior secondary, and an additional 20% had completed lower secondary. Conversely only 18% reported that they completed a literacy program such as Packet A. Most KBU members reported their groups were involved in agricultural or food processing, an additional 12% produced handicrafts.

The study reports a surprisingly high persistence rate, of 78% for the 81 KBUs tracked. The groups began between 1992 and 1997. These results may be an artifact of the way data were collected. It may be that surveyors were much more likely to find members of groups that persisted to complete their survey. Later in the study there is an apparent contradiction in that the authors report that 32% of the KBUs went bankrupt, leaving the highest possible persistence rate at 68%.

The report found that KBUs reported monthly profits of Rp 34,000 per member or about US 13.60. To put this figure in perspective the BPS poverty line for rural populations was monthly consumption of Rp. 31,524 for a single person.[5] Thus the average KBU member earned just enough to keep one person out of poverty.

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[4] *Impact Evaluation of Non Formal Education Programs in Batch I and II Intensive Kecamatan: Final Report*. Pusat Pengembangan Agribisinis. Ministry of Education and Culture, Directorate General of Out-of-School Education Youth and Sports, Directorate of Community Education. 1997.

[5] This figure was calculated by taking the BPS rural poverty line for 1996 and adjusting it for an inflation rate of 15%. For a complete explanation of this approach see *Employment Challenges of the Indonesian Economic Crisis* "Annex A" International Labour Organization, Jakarta Office, United Nations Development Program. June 1998.

This evaluation focused in part on the impact of the three days of management training offered prior to the introduction of TRPs. The study found surprisingly that groups that had the training had higher profits but were more likely to go out of business.

The report also found that KBUs that received revolving loan funds were more likely to persist, (88% to 63%) than those that did not. It appears that this comparison is between those that got the revolving funds and those that got no financial support. Groups that got the Rp 250,000 learning funds do not appear in the analysis. Groups who receive the revolving funds were also more likely to report that their business had grown. The survey also found that 70% of the revolving loans went to existing businesses rather than start-up businesses. Fieldwork reveals a possible interpretation of these results not mentioned in the report. During the period of the revolving loan fund many Dikmas fieldworkers and Peniliks report they had great difficulty getting poor people to take on the revolving loan. As a solution to this problem they would often go to a local small business, and ask them to take in five KBU eligible people, give the revolving loan to the owner the of business and declare it a KBU. This pattern may account for success of the revolving loan fund KBUs found by this survey.

The study reports that they found only three KBUs that were able to borrow from a bank, but a larger group got loans from some institution other than Dikmas.

1.5 Current Scope of the KBU Effort

In the most recent review of the progress of KBU's during fiscal year 1997-98[6], Dikmas reported that 1,500 KBU groups had been formed in 18 provinces under the tryout system. While information is described as "scarce" Dikmas does report that all groups had a Technical Resource Person (TRP) and that 64% of the TRPs are women. Seventy-five percent of the group members are women. Members are relatively young with 67% in the age group 12 to 20 years old, three quarters have had some KBU training in the past indicating they were involved under the pre-tryout KBU program. Packet A learners made up only 25% of all members, but overall levels of education remained low with an additional 28% being SD (elementary school dropouts), 14% elementary school completers, 11% lower secondary school dropouts, 14% lower secondary completers and only 6% upper secondary completers.

Almost two-thirds (63%) of the groups manage the learning fund collectively as a group, the remaining 37% manage their share individually but still meet as a group.

[6] *Third Nonformal Education Project: Progress Report No 11, Period July 1, 1997 to March 31, 1998* Directorate General of Out-of-School Education, Youth and Sports, Directorate of Community Education.

2.0 Methods

2.1 Overview

This report is based on the results of three one-month visits to Indonesia, which included visits to five provinces, which participated in the KBU program. In addition data collected by Dikmas staff covering 57 groups in 8 provinces is analyzed. Finally data was collected in three provinces using an instrument (English version of the instrument is included in Appendix C) designed by this consultant.

2.2 Fieldwork

During provincial field visits efforts were made to visit a selection of KBUs at different stages of development. A small number of visits were made to older KBUs formed under the revolving loan fund program. In each province interviews were conducted with Dikmas staff at levels, from the provincial head to the Penilik and field workers. Interviews with KBU members and TRPs were the principal focus of the fieldwork. Whenever possible groups were observed while they were actually at work producing or selling. Interview guides for the fieldwork are included in Appendix B. The table below summarizes the number of KBUs studied by province.

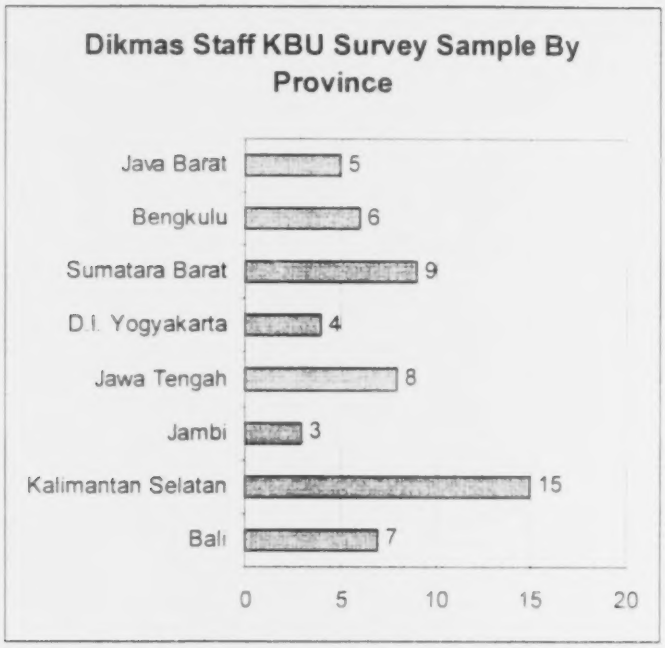
Table 2.2 Fieldwork Sites

Province	Date	Number of Tryout KBUs	Number of Older KBUs	Total
West Java	Feb. 1999	18	0	18
North Sumatra	June 1997	13	0	13
West Kalimantan	June 1997	12	2	14
South Sumatra	April 1997	13	5	18
East Java	April 1997	7	2	9
Total		63	9	72

Complete field notes for each province are included in Appendix A.

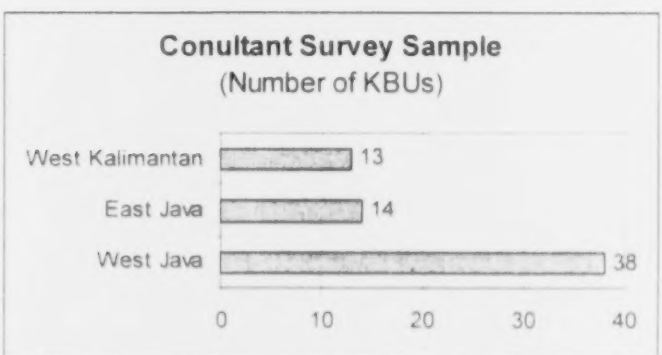
2.3 Dikmas Survey

In January and February of 1999 Dikmas staff visited 57 KBUs in 8 provinces collecting data on KBUs. Data collected was principally descriptive. Data which were uniformly collected across the KBU were entered into statistical package and analyzed the results are reported below. The following graph shows the distribution of KBU across the provinces.



2.4 Consultant Survey

Based on the fieldwork done in April and June of 1997 a structured questionnaire was designed to collect data on KBU's key characteristics and financial success. The questionnaires were designed to be completed by Dikmas staff in the field who were familiar with the particular KBUs. Overall data were received on 65 KBUs. The following table shows the number of KBUs for whom questionnaires were completed by province. Data from this questionnaire was used to identify the characteristics of KBUs associated with success.

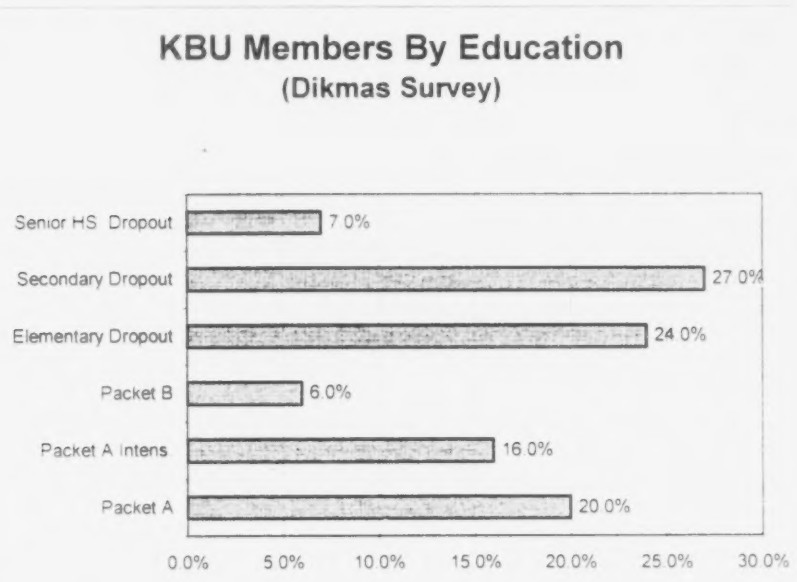


3.0 Results

Results are organized around the research questions posed earlier.

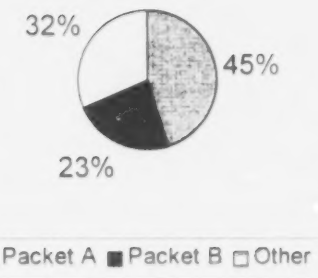
3.1 Did the KBU program reach the intended target population?

It appears that the "Try Out" KBU program did a much better job of bringing poor women who were in Packet A or B into the KBU program than earlier versions of the program. Unlike the impact evaluation report which found that only 18% of group members had participated in a Dikmas literacy program the more recent Dikmas survey found that 36% were completers from literacy training and an additional 6% percent completed Packet B.



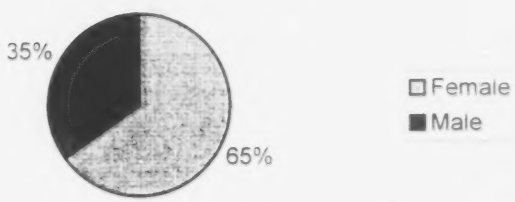
Data from the consultant found a similar mix. Within those groups 45% of the members were Packet A completers and 23% were Packet B completers.

Percent of Members Packet A or B Completers
Consultant Survey



Fieldwork confirms this finding. Peniliks repeatedly said in interviews that under the learning fund approach it was much easier to form groups from Packet A or Packet B completers because the groups did not have to take on the risk of borrowing right away.

KBU Members By Gender
Dikmas Survey



Both the Dikmas survey and the consultant survey found that almost two-thirds of all the participants were women.

The consultant survey also collected data on the age of the participants. That average age in the groups ranged from 14 to 60, with an average age overall of 30.1 years. The standard deviation was 10.2 indicating that roughly two thirds of all members were between 20 and 40. Packet B completers tended to be younger than average.

3.2 What types of micro-enterprises developed under the KBU program?

Overwhelmingly the most common type of product produced by KBUs was snack food such as tempe or kripik, which is sold in local markets, door-to-door in the village or to small retail outlets. In a sense the product is a good choice in that the raw materials are found locally and the expertise to produce and market it are found in the.community. A disadvantage of the product is that it is a low value added product. In some villages there are many people making the product greatly reducing its profitability and limiting the groups' prospects for growth. We did find some very successful snack food groups in these cases the groups had usually been able to package and label their product in such a way as it was acceptable to larger stores. This allowed the groups sell more and command a premium price over groups that did not package or label their product. The following graph shows the distribution of KBUs by product produced from the Dikmas survey.

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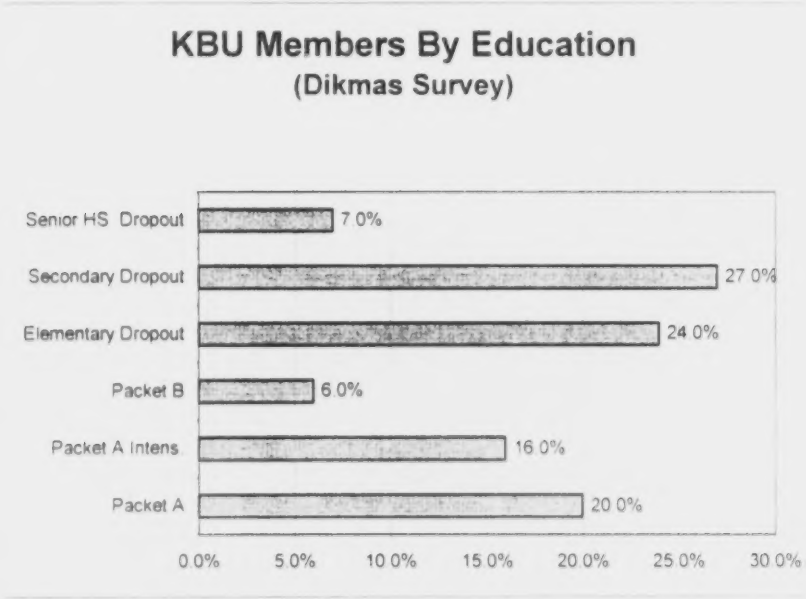

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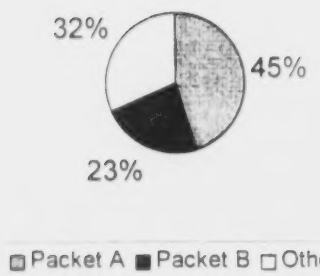

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KBU Members By Gender
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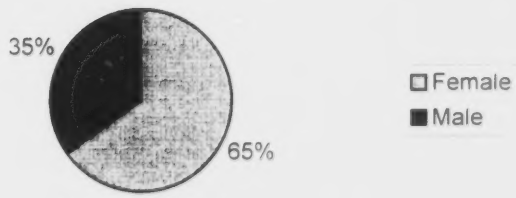

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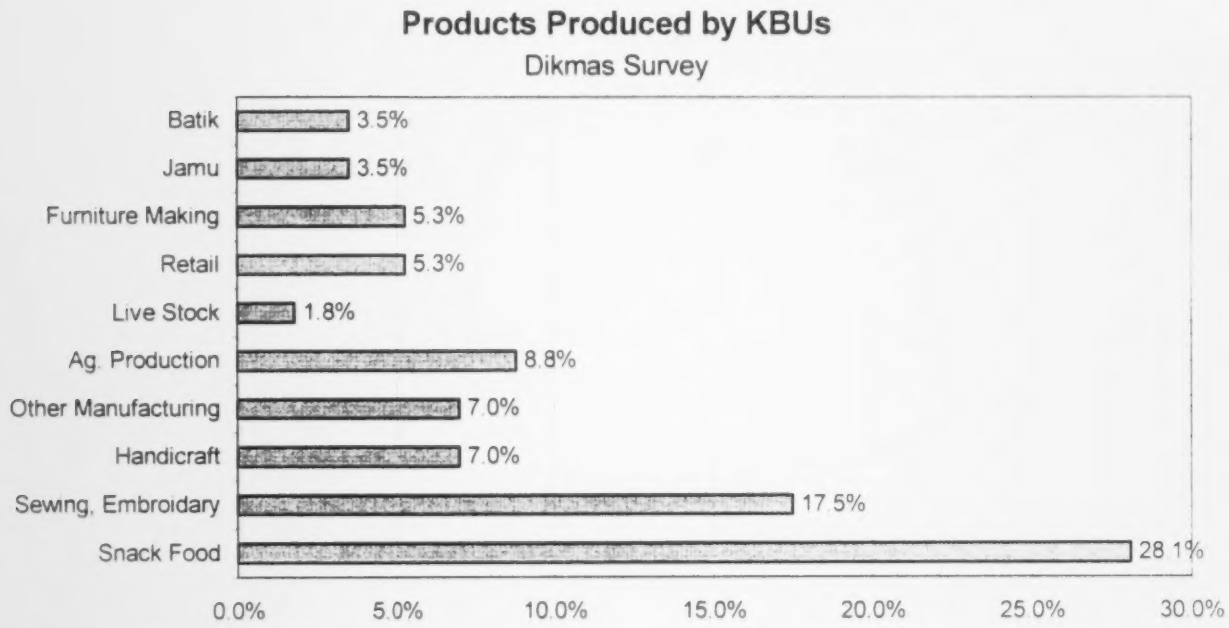
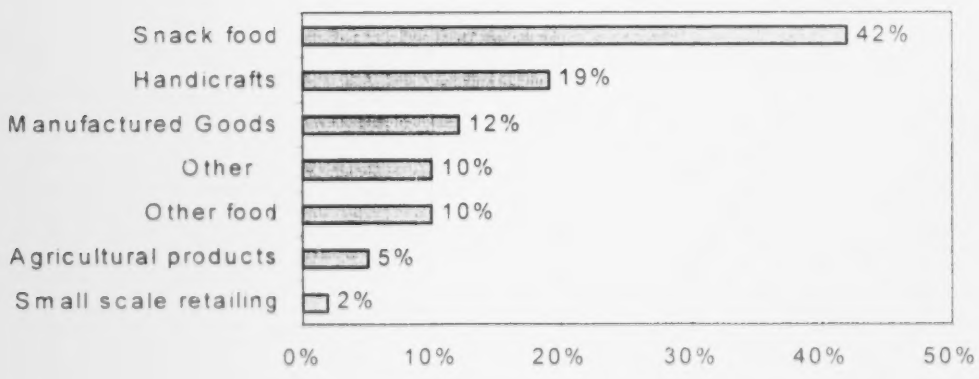


The balance of the KBUs were spread over a variety of types of products. Vegetable raising and chicken raising were common agricultural products. Sewing, tailoring and embroidery, sometimes for wedding dresses were another significant group. Various handicrafts such as broom making or basket weaving were also found with some frequency.

The consultant survey collected data on the types of products produced as well but in broader



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categories. Here snack food made up over 40% of all KBUs.

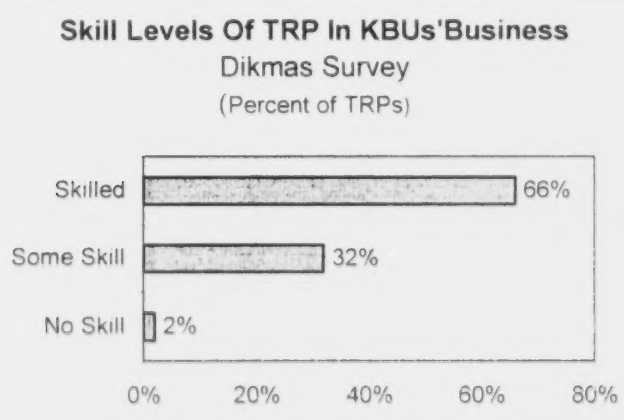
3.3 How effective were the Technical Resource People (TRPs) who assigned to assist the groups?

Overall the TRPs appear to be a successful innovation. Interviews with local Dikmas Staff and fieldwork with KBUs reveal, the TRPs were effective at helping groups to form, chose a product that could be produced with materials available locally and with available capital, usually just the learning fund. TRPs appear to be successful at teaching the production skills necessary to get the groups started and seem to contribute to motivating the groups.

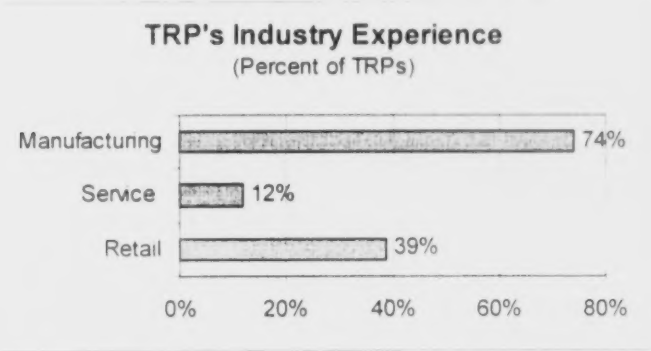
TRPs were also able to help the groups find local markets for their initial production, but here the limits of the TRPs began to show. Most TRPs were only familiar with local markets, hence could not help groups to seek more distant and possibly more profitable markets. Similarly, while TRPs knew how to produce a product, their own business skills were limited. We found few TRPs who were able set up financial record keeping for groups or who could deal with other business issues such as borrowing money or packaging the product.

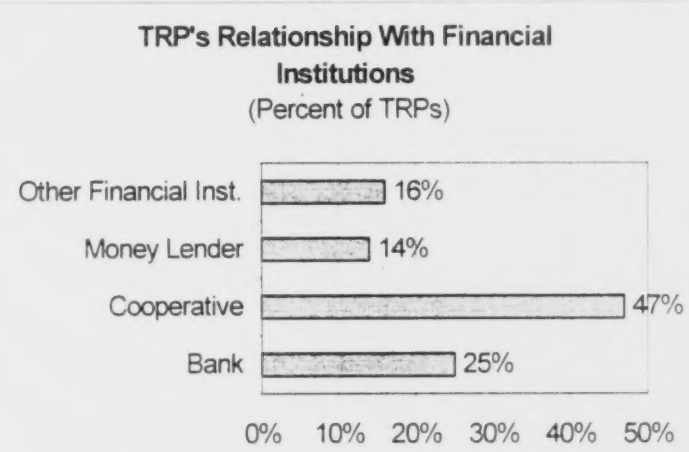
The Dikmas survey provides an interesting profile of the TRPs and their work in the provinces studied.

In their survey Dikmas staff rated the degree to which TRPs had skills related to the KBUs' product or service. In this sample over two thirds were rated as skilled.

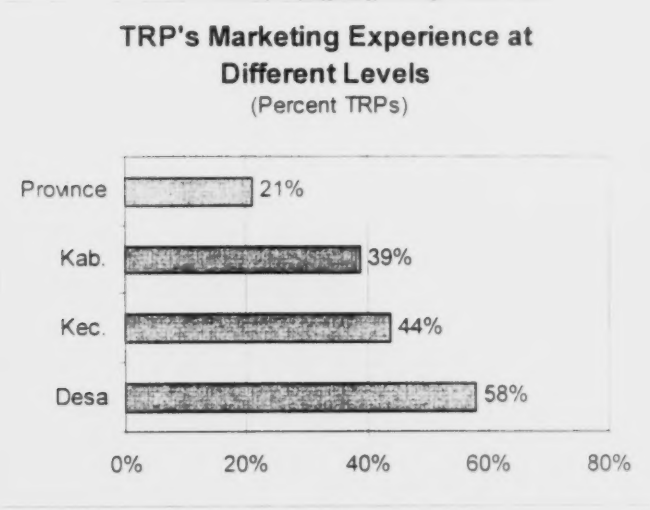


The survey also collected data on the TRPs work experience almost three quarters of the TRPs had work experience manufacturing products, only slightly more than a third had retailing experience.

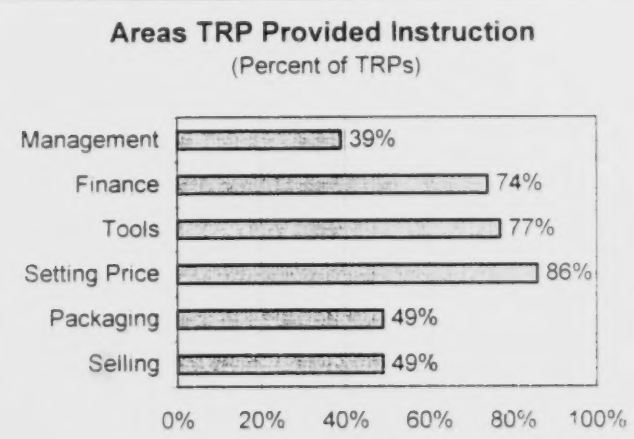




The Dikmas survey did reveal the TRPs lack of banking experience as the graph above indicates only a quarter of the TRPs themselves had bank accounts. About half had come relationship with a cooperative, but it is not clear if this relationship was for financial purposes.



Examining the TRPs' marketing experience at different levels, the survey found marketing experience to be most common at the desa level. About one-third of the TRPs also had experience at the kecemantan level or the kabupaten level. Less than a quarter had experience at the provincial level. Fieldwork shows that this lack of experience marketing outside the local area tends to undermine the groups' ability and motivation to seek markets beyond the local area, since the TRP does not have a network they can tap.



The Dikmas survey also collected data on areas in which the TRPs provided instruction to KBU members as the graph indicates TRPs were most likely to provide instruction in production and pricing skills, and much less likely to teach general management and marketing skills.

The consultant study also collected data on the TRPs economic relationship with the KBUs. Surprisingly this survey found that about half the TRPs were not local business people but someone else possibly government officials, who trained and coached the groups. About a quarter of the TRPs were local business in the same business who trained the group but did not get involved with them economically. Eighteen percent of the TRPs were business people who took responsibility for selling what the KBU produced, usually the TRP would take a profit on what he or she sold. In only 8% of the cases did the TRP act as an employer of the KBU members paying them wages or piecework rates. An analysis, which correlated group profits with their relationship with the TRP, found no significant differences.

In the fieldwork we did find a few incidents where TRPs appeared to be taking advantage of the system. In these cases a TRP was usually a person with an existing business. He or she would take five KBU eligible people into his or her business collect the learning fund and the TRP stipend, and use the KBU members as employees. While KBU members did usually learn how to produce a product. The capital was not used to help them build any equity in a business. The typical outcomes of these types of groups seems to be that a couple of members would remain with the business as employees others would drift off, few would start their own business.

3.4 To what degree was the KBU program linked successfully to other components of NFEIII and to other sources of micro-enterprise credit?

This is the area in which the "Try Out' KBU's were least successful. Fieldwork found very few instances in which KBU groups had borrowed from any financial institutions or received other support such as technical assistance from other micro-enterprise programs. Local Dikmas staff were aware that they were to link KBUs to credit sources but it seldom happened.

The consultant survey found that 18% of the active KBU's had borrowed money. In all the cases where groups borrowed they reported that they were repaying the loan as a group, as opposed to individually or through the TRP. Half the groups that borrowed from a bank, 33% from a government agency other than Dikmas, and 17% from some other organization, often an NGO. This appears to be a higher rate then found in the fieldwork. It may be that some of these groups were old enough to go back to the revolving loan era and hence report borrowing.

Reasons for this failure borrow are not clear. Fieldwork reveals several possible explanations. The first is a paradox, in that when the program operated solely as a revolving fund, the very poor were discouraged from participating because they were unwilling to take the risk of borrowing. So more affluent and educated individuals and established enterprises were recruited into the program. When the revolving fund ended and groups were given grants of learning funds for start-up capital, it became easier to recruit poor members, but borrowing by the groups ceased.

Second, the TRP may be unwilling to link the group to a lender because in the more successful and sophisticated KBUs the TRP is essentially a small entrepreneur employing the groups members. He or she will not borrow for the group, since they don't want to be liable for the group's performance unless they are strictly employees. It may also be, that as the data reported earlier indicate many TRPs themselves have very limited financial experience and few ties to the formal banking system. We show in a later section that TRPs banking experience seem to have a significant association with the KBUs ability to access banks. Finally, the Peniliks and Kasi appear to have a negative attitude toward borrowing. This may be a result of the past practice of holding Peniliks, in some cases, responsible for group repayment. Both Penilik and Kasi report that borrowing is too complex for the groups and that BRI will require a land certificate for collateral, and members are unwilling to risk their land or have no land. Yet, there are BRI programs that would lend without land for collateral. Local Dikmas staff argue that the micro enterprise programs which do not require collateral are not offered by local BRI branches in their area. In fact in West Kalimantan visits to three BRI branches failed to turn up a loan application.

The existence of the learning fund may have set up the wrong expectations for the groups, the TRPs and local Dikmas staff. Supplying learning funds, which serve as start up capital, has reduced the pressure on the KBUs to borrow. Increasing the start-up funds, if all things remain the same, will further reduce the incentive to borrow. In fact the solution to a lack of capital mentioned most often by local staff is to increase the learning fund, borrowing just is not something that is considered a viable option by most groups,. The substitution of the learning fund for the revolving loan fund for start up capital has probably reinforced this view.

We did find one area in West Java where a number of KBUs had successfully borrowed from a BRI program. In this case an aggressive Dikmas staff member had smoothed the way by going to the local branch manager and explaining the KBU program, and getting the branch managers to loan based on the groups business plan which was recommended by the Penilik.

A final barrier to borrowing may be the lack of financial sophistication of the TRPs. The Dikmas survey found that only about a quarter of the TRPs had a relationship with a bank. About half had a relationship with a co-operative, but it is not clear if the co-operatives had any micro-enterprise lending programs. Given that the TRPs are the people who work most closely with the KBUs this lack of sophistication is significant barrier to bringing the groups into the formal financial system.

If future KBUs are going to be linked to other sources of credit a more systematic and aggressive approach is needed. Suggestions for moving KBUs from reliance on the learning fund to borrowing at market rates in stages is included in the recommendations section.

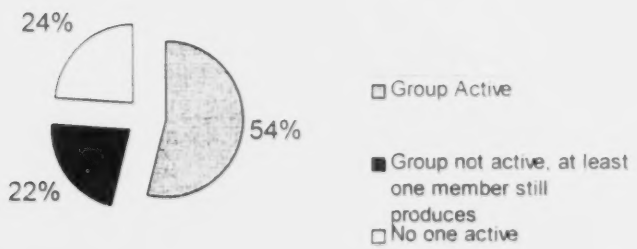
3.5 What economic impact did KBUs have?

3.51 Persistence of KBUs

For KBUs to have an economic impact they must continue to operate. The impact study reported a persistence rate of 78%,[1] which seems high given what we observed in the field. In each local area we asked Dikmas officials to estimate the persistence rate of their KBU groups. Looking only at estimates reported in 1999 after the financial crisis, we found persistence rates, one year after being formed, of about 50%. Rates were slightly higher if it included groups that quit producing as a group, but one or two members continued to produce. The higher rate reported by the impact assessment may due to the fact that their sample included groups funded under the old revolving loan fund program, where many groups were actually employees of existing small businesses who would be likely to persist than start-up businesses.

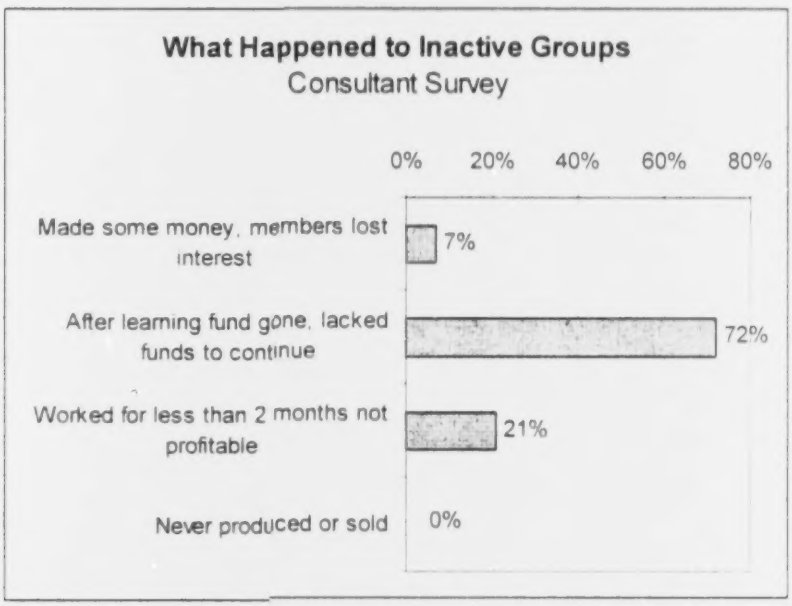
The consultant survey collected data that put KBUs into three categories. The first is active, indicating the KBU still met as a group and most members were producing and selling. The second category was for KBU were members no longer met or worked as a group, but one or more members were still working and producing on their own. Finally the third group was for KBUs which no longer met as a group and in which no members continued to produce and sell. As the graph below shows, slightly more than half the KBUs surveyed are still in the active category. On average these groups were started about 12 months before. In 22% the group is inactive but at least one member is still working. On average these groups were started 23 months before. In about a quarter of the cases there is not activity. These groups were started on average 24 months before.
Not surprisingly the longer the group exists the more likely it is to become inactive.

KBU Status In February 1999
Consultant Survey



[1] *Impact Evaluation of Non Formal Education Programs in Batch I and II Intensive Kecamatan: Final Report*. Pusat Pengembangan Agribisinis. Ministry of Education and Culture, Directorate General of Out-of-School Education Youth and Sports, Directorate of Community Education. 1997.

We asked respondents to report why a group became inactive. As the graph indicates the most common reason, reported by over 70% of the groups was that "they used up the learning fund, and did not have the funds to continue". Much smaller groups reports that they were losing money or that members lost interest. No groups reported that they never got to the stage of actually producing and selling.



An analysis was done to try to determine what characteristics were associated with a group persisting. We found no relationship between the product produced and persistence. There was not significant differences in the average age of the group members, the mix of men and women or the number of packet A or B completers in the group. We were not able to identify if the groups were intact Packet A or B groups. Thus we could not test our finding form the field work that intact Packet A and B groups that continued on to become KBUs were more successful.

3.52 KBUs relationship to village economy

Expectations for the KBU program's impact on villages should be modest. First, relatively few people in any one village participate in the program. Second, a comprehensive study of the impact of three micro-enterprise programs in Bangladesh by the World Bank[2] found no

[2] Khandler, S.R. & Chowdbury, O.H. (1996) *Targeted Credit Programs and Rural Poverty in Bangladesh World ban Discussion Paper No. 336*, Washington, D.C.: The World Bank

overall positive effect on poverty in the village a whole, even though the programs helped individuals and families move out of poverty.

There has been no systematic attempt to estimate the economic impact of the KBUs on their villages, but logic and the fieldwork indicate that KBUs are having a limited economic impact on their villages because of the nature of the products they produce and where they sell. The typical KBU produces a snack food, such as tempe, and sells it only at the local market. In the consultant survey 28% of the groups reported they sold their product in the local desa only. Often multiple groups are formed in a single village and they all compete selling the same product, or similar products such as various types of snack food. This situation means that little new revenue enters the village and prices are low. Fieldwork shows few KBU have any plans of expanding their market beyond the village and few Peniliks are encouraging groups to move in this direction. Forty-six percent of the groups in the consultant survey reported that they sold their product directly to individual consumers only. An additional 24% sold their product to very small retailers, such as a local warong, and only 30% reported they sold their product to formal stores. A related barrier to expanding markets is the poor or non-existent packaging of the snack food, or other food products. Without proper packaging the food products can not be easily transported and even small stores will not stock them. Without branding and labelling of the product groups can not charge a premium price. It is important to note that some of the most successful groups found in the field work were groups who had been able to package and label their food products and thus reach broader markets.

Finally, even when groups do export their product out of the local area they receive only a small share of the ultimate value of the product. For example, a KBU in North Sumatra produces elegant hand woven sarongs. They cost Rp. 13,000[3] in materials and are sold in stores in Medan for Rp. 30,000, yet when sold to the local distributor the KBU received only Rp. 16,000. Another KBU in East Java produces tapioca, which is sold to a trader who drives up to the village from Surabaya. He is the only buyer and sets the price free of competition. The group has never explored what the price of the tapioca might be in Surabaya, if they could transport the product themselves or if there might be a second buyer to bid the price up.

Essentially all these problems stem from a lack of basic business skills and more fundamentally a lack of understanding of basic economic concepts such as distribution systems, value chains, and supply and demand. This lack of understanding is not restricted to the group members. Local Dikmas staff and the TRPs often lack this knowledge. From the fieldwork it appears that TRPs are chosen primarily for their ability to teach the group members how to produce. TRPs seldom have business skills to help the groups grow beyond producing and selling in the village.

3.53 Impact of the current economic crisis

The current economic crisis has added to the economic problems of the groups and created an even greater need for broader economic understanding. In visits to groups in West Java in February of 1999, we were able to observe the impact of the rapid inflation on the groups.

[3] These are 1997 prices.

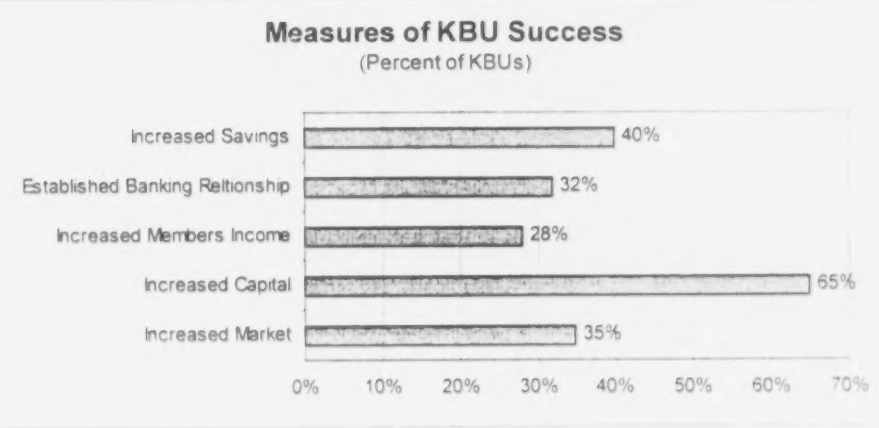
First since the amount of the learning fund was held at Rp 250,000 throughout the inflation the types of businesses that could be capitalized by the fund was restricted. We encountered several groups in which inflation was eating up the members' working capital but they were unable to see their way out of the dilemma. For example, one group was successfully producing and selling brooms, both in their own village and in some nearby markets. The cost of the one of their raw materials, nylon string in this case, had gone up dramatically. The group had held their price constant during this period and thus eaten away at their working capital, now they can not afford to buy enough raw materials to produce as many brooms as they could sell. Despite having a successful product the group was in a downward spiral. They did not believe they could raise their price, they were unwilling to borrow to expand. The solution, in their view, was for Dikmas to give them more learning fund money, free capital. Neither the TRP nor the Penilik encouraged them to raise their price to keep up with inflation. The TRP simply knew the broom making craft and had no business experience. The Penilik just wished the group could have more learning funds.

3.6 To what degree were KBU's able to contribute to lifting members and their families out of poverty?

3.61 General measures of success.

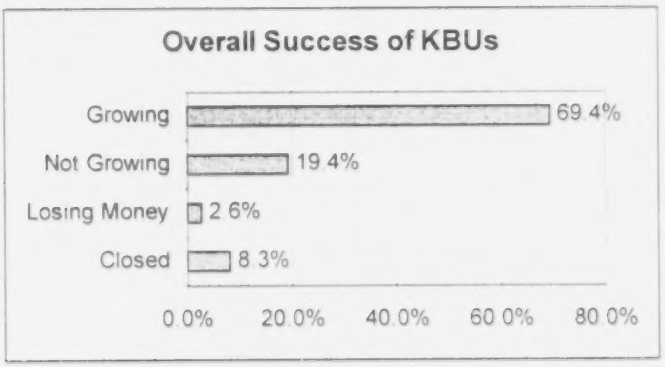
In the Dikmas survey, surveyors put the KBUs visited into four general catagories of success. As the graph below indicates most groups were classified as growing, and only few as losing money or out of business. Again these results may be attributable in part to the fact that it was easier to find and survey groups which were still active, which in turn were the more successful groups.

The survey also tried to look at some specific changes associated with success such as expanding markets for products produced, or opening bank accounts. As the graph below indicates only slightly more than a quarter of the groups report increasing members' income this may because few of the groups are more than a year old and many may be reinvesting profits into the business, almost two thirds report that they have increased their capital. There are also some more indications of weak ties to the financial system as only about a third of the groups report having a bank account.



3.62 Members earnings and poverty.

Perhaps the most important test of a KBU's success as a business is its ability to raise its members above the poverty line. Again other research suggests gains in this areas should be modest. In the World Bank Study mentioned before, researchers looked at a group of rural poor who borrowed from the Grameen Bank repeatedly over five years and found that about 4% of the households a year moved out of poverty. Over time the program had a significant impact, but most small enterprises did not generate the income needed to raise a family out of poverty quickly, in fact it took about five years for most households.



The consultant survey collected data on active groups' (n=28) costs and revenues for the past week. The table below shows the results.

Table 3.62a Active KBUs' Weekly Finances (Rupiah)

	Average	Range	Standard Deviation
Revenue	357,392	4,190,000	861,080
Costs	345,046	3,910,000	754,486
Profit	95,203	745,800	143,770
Profit Margin	26.6%		

The average group had weekly sales revenue of about Rp. 357,000, and costs of about Rp. 345,000. The average group reported profits of Rp. 95,203. The average profit margin was a little more that 25%. Large ranges and standard deviations indicate the wide variation in group finances. For example, profits ranged from Rp. 4,200 to Rp 750,000. It is also important to note that in this calculation costs included only the cost of raw materials and transportation. Thus the profit also represents all wages to paid to group members.

To better understand the how much individual members were earning we divided the profit reported by the group by the number of members reported to be active. The table below shows the results.

Table 3.62b KBU Weekly Profits Per Member (Rupiah)

	Average	Median	Range	Standard Deviation
Profit	18,500	9,800	93,750	23,879

On average a group member earned Rp. 18,500 in a week. The much lower median of Rp. 9,800 show clearly that small number of highly profitable KBUs are pulling the overall average up. In fact as the median indicates half of all group members are earning Rp. 9,80o or less.

To examine the value of the money earned we compared it with the BPS estimate of value of consumption required to raise one person above the poverty line as well as the average and median for the Consultant Survey sample of KBUs. We did this by taking the monthly 1996 Rural Poverty Line adjusted for inflation to 1998[4]. We created a weekly poverty line by dividing the monthly figure by 30 and multiplying by 7. Yielding a weekly poverty line of around Rp. 12,000 this figure means that a single person must consume slightly over Rp. 12,000 per week to stay out of poverty.

[4] This figure was calculated by taking the BPS rural poverty line for 1996 and adjusting it for the inflation rate for 1997 and 1998. For a complete explanation of this approach see *Employment Challenges of the Indonesian Economic Crisis*. "Annex A" International Labour Organization, Jakarta Office, United Nations Development Program. June 1998.

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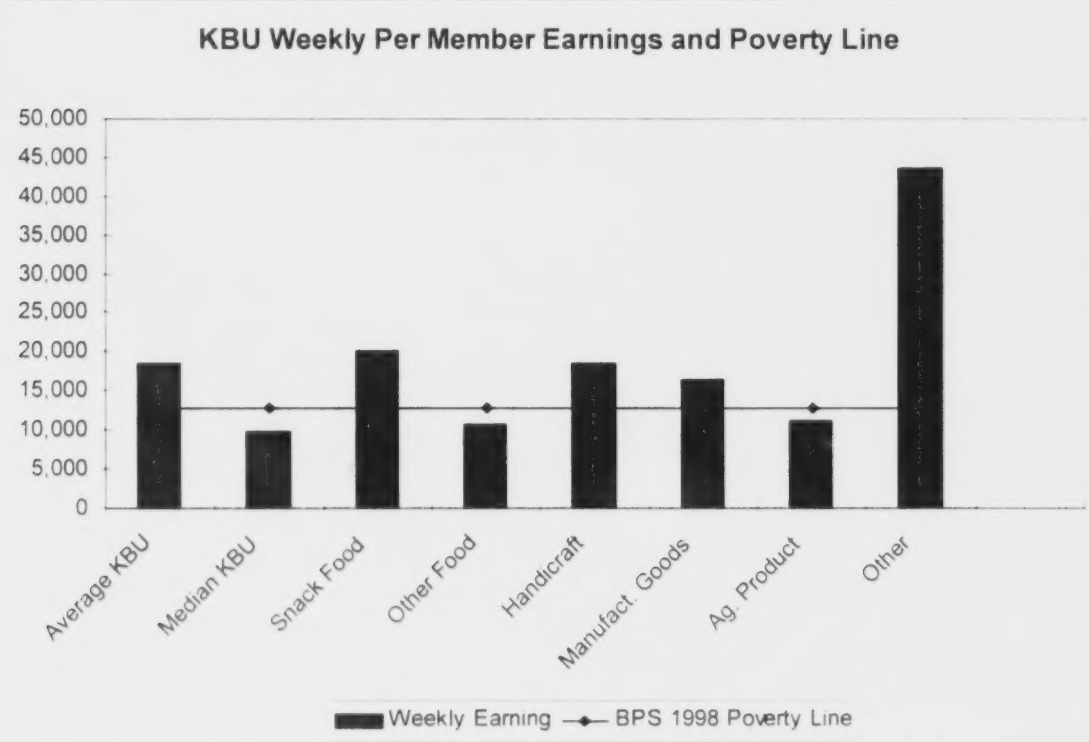
As the graph shows the average profit per member is over the rural poverty line for one person, but the median is substantially below it, indicating that most members are below this level. Breaking it down further by type of product we see that on average members of snack food handicraft, and manufacting groups earn over the poverty line. While groups producing other food products and agricultural products are below the poverty line. Groups producing "other products" are the highest earning group. These data are fairly consistent with the findings of the Impact Assessment Report described earlier that the average KBU member makes a little more per month than the rural poverty line. It is important to remember that in most KBUs members did not work five days a week. In most cases KBU members are women who are generating additional income for their families, or members are farmers who are seeking additional income. It is clear from these data that most KBU members could not raise a family out of poverty on their earnings, at this point. An interesting side note is that when we interviewed members about what they did with the money they earned the most common answer was to pay school fees. It may be that the KBU program is contributing to learning by reducing the dropout rate for member's families.



3.63 How members are paid.

An interesting side light of the fieldwork was documenting the different ways members got paid for their work in the KBU groups. In the fieldwork we found the following models.

TRP As Employer.

As noted earlier in some groups the TRP was the owner of a local business who essentially used KBU members as employees, in these cases the members would be paid a daily wage or paid by piece work depending on the type of process. In the consultant survey we found this arrangement in 27% of the groups.

TRP As Broker.

In other groups the TRP would buy from the members everything they could produce and then attempt to resell the products at a profit. Hence, the TRP acted as a broker. In some of these cases the TRP would be experienced in the business and would incorporate the groups production into his or her regular marketing efforts in other cases the TRP might be inexperienced but more willing than group members to take the risk of selling. This category was not included in the consultant survey.

KBUs as Cooperatives

In this model the group produces as a group. One or two members may take responsibility for selling or all members may sell. Group members may be paid by the piece for what they produce or they may be paid per day worked. In any case pay is a share of the profits based on the individual member's level of effort that particular day or week. In the consultant survey we found this arrangement in 26% of the KBUs.

KBU Members as Freelancers

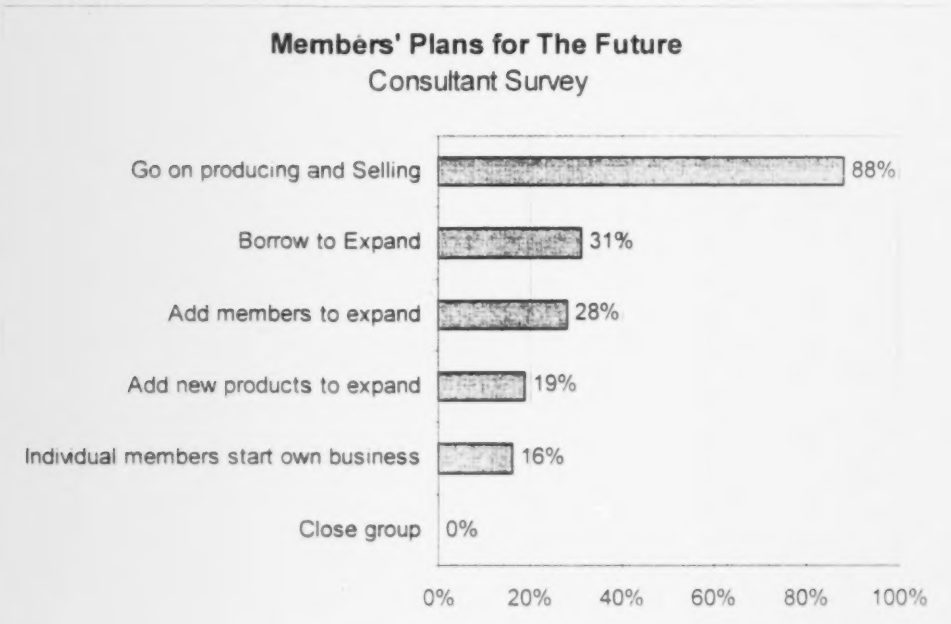
In this model each member produces and sells on their own and keeps whatever profits they make. Groups meet periodically to discuss problems or get advice from the TRP. This was the most common model in the consultant survey, it was reported by 47% of the groups.

3.64 KBU Savings

In the fieldwork we found that most KBUs that worked and sold as a group had savings. Sometimes savings were held in a bank, other times they were held by the TRP or the chairman of the group. Occasionally groups reported a local cooperative or NGO held the savings. It appears that Peniliks conveyed a strong message about the need to have some savings and most groups, at least in the early stages, did save. The amount saved varied substantially but a typical group might save Rp 10,000 every week they produced. Few groups had clear plans for what to do with the money, and no groups seemed to understand that the money could be used as collateral for borrowing. Again due to a lack of economic understanding we found several groups who were holding their savings in cash, allowing inflation to rapidly erode its value.

3.65 Members Plans for The Future

On the consultant questionnaires active groups were asked what they planned for the future. As the graph indicates most groups plan to go on selling and producing as they are and no groups said they planned to close. Surprisingly 31% said they planned to borrow to expand, experience indicates however that few groups will actually end up borrowing to expand.



3.7 What characteristics were associated with successful groups?

To identify characteristics which are associated with successful KBU groups we used the four point success scale from the Dikmas survey (groups were rated as growing, stable, losing money, or out of business) and crosstabulated that measure with the groups characteristics. The statistically significant relationships were identified with a chi-square statistic.

The first characteristic we examined was the product or service produced by the group, a significant relationship was found (chi-square 45.021 p=.01). As the table shows groups who were manufacturing some product or making furniture, or making Batik were most likely to be rated as growing. Jamu producers, retailers, and groups in agricultural production were less likely to be rated as growing. The relatively small number of groups in many of the catagories limits the power of this analysis, but does provide data for some speculation. It would appear that groups doing higher value added manufacturing, or where products require substantial skill, such as batik, are more likely to succeed. In general these data suggest in the

future tracking success by type of product would have value for the program. It is important to note here that in the consultant survey using larger more general categories of products there was no relationship between product and a groups persistence.

Table 3.71 Success By Type of Product Produced

Product		Success of KBU				Total
		Closed	Losing Money	Stable	Growing	
Snack Food	Count		2	1	13	16
Snack Food			2			
	% within Product		12.5%	6.3%	81.3%	100.0%
Handicraft	Count			1	3	4
	% within Product			25.0%	75.0%	100.0%
Manufacture Other	Count				4	4
	% within Product				100.0%	100.0%
Ag Product	Count	3			2	5
	% within Product	60.0%			40.0%	100.0%
Retail	Count			1	2	3
	% within Product			33.3%	66.7%	100.0%
Live Stock Raising	Count			1		1
	% within Product			100.0%		100.0%
Sewing/ Tailoring	Count			2	8	10
	% within Product			20.0%	80.0%	100.0%
Furniture Making	Count				3	3
	% within Product				100.0%	100.0%
Jamu	Count			1	1	2
	% within Product			50.0%	50.0%	100.0%
Batik	Count				2	2
	% within Product				100.0%	100.0%
Total	Count	3	2	7	38	50
	% within Product	6.0%	4.0%	14.0%	76.0%	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	45.021	27	.016

Other measured group characteristics, which had a significant relationship with success are displayed in the following table. As the table shows the skill of the TRP in the production of

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the product does have a positive relationship with the success of the group. Similarly if the TRP has experience marketing beyond the desa, in the kecamatan or the kabupaten then the group is more likely to be successful. TRPs who taught management skills to their groups also tended to have more successful groups. Finally, the other measures of success, increasing capital, increasing market size, and increased savings are all associated with overall success. Surprisingly increasing members earnings was not significantly associated with overall success.

Only one measure had a negative association with success an that was the TRP having a financial relationship with an institution other than a bank, cooperative or moneylender. Indicating if the TRP has these relationships groups were less likely to be growing.

Table 3.72a Characteristics Associated with KBU Success

Characteristic	% Closed	% Losing Money	% Stable	% Growing	Chi-square	Signif-icance
Overall	**6%**	**4%**	**14%**	**76%**		
Positive Association with Success						
TRP Skilled	0%	2.6%	13.3%	84.2%	15.000	020
TRP Experienced Marketing in Kecamantan	0%	4.0%	4.0%	92.0%	8.426	038
TRP Experienced Marketing in Kabupatten	0%	4.5%	0%	95.5%	9.882	020
TRP Taught Management Skills	0%	0%	9.1%	90.9%	6.232	039
KBU Increased Capital	0%	0%	0%	100%	37.66	000
Increased Market for Product	0%	0%	0%	100%	11.004	012
Established Banking Relationship	0%	0%	5.6%	94.4%	6.053	043
Increased Savings	0%	0%	0%	100%	13.771	003
Negative Association with Success						
TRP Other Financial Relationship	0%	11.1%	66.7%	22.2%	22.792	001

In the field we saw several groups which were intact Packet A groups which had completed all 100 modules of Packet A and then continued on as a KBU. Since these groups had been together for three years or more they seemed to be particularly motivated groups. Members seemed interested in extending their learning activities to connect literacy with their work. These groups seemed to have among the poorest members served by the KBU program. Yet the groups seemed to form successful KBUs. This makes sense in that a group, which had successfully collaborated to complete on activity –literacy training- would be very likely to succeed at the next activity forming a KBU. However when we tested this hypothesis by correlating the number of Packet A completers in a group with the success of the group we found no significant relationship. Similarly we found no relationship between the other levels of previous education and success or for gender and success.

An analysis of groups earnings in relationship to where they sold their product and to whom they sold their product revealed the importance of KBUs building connections to larger

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markets. Groups that sold only to individual consumers usually by going door-to-door in the village, had average weekly profits of only about Rp. 7,000, and a profit margin of only 15%. Groups that sold to small retailer, say local warongs, did substantially better with weekly profits of Rp. 170,000 and a margin of 39%. Groups that sold to larger formal stores reported smaller profits than those that sold to small stores but a substantially larger profit margin. Similarly groups that sold locally only had about half the profits of groups that sold out side the local area, although the local sales seemed to have a higher profit margin.

Table 3.27b Profits By Market Factors

Factor	Weekly Profit	Profit Magin (Profit/Sales)
Customer		
Individual Consumer	Rp. 73291	15%
Small store	170,000	39%
Formal Store	79,525	60%
Market		
Desa Only	63,277	50%
Kecamatan and beyond	127,310	28%

A final area we explored was the link between the characteristics of the TRP and the groups having a relationship with a bank. The data did reveal that in cases where the TRP had a relationship with a bank the KBU was much more likely to have a relationship with the bank. In fact 72% of KBUs whose TRP had banking relationship had themselves established a banking relationship. Conversely only 29% of the KBU whose TRP did not have a banking relationship had established a banking relationship.

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4.0 Recommendations: Investing In Success: A New Strategy for Dikmas KBU Development

4.1 Overview

Many observers have questioned why Dikmas, an educational agency, should be involved in setting up micro-enterprises. With so many other government and non-governmental organizations setting up micro-enterprises or contributing to micro-lending what is Dikmas's unique contribution to supporting micro-enterprises? Wouldn't Dikmas's resources be better spent on educational projects? These are good questions. But after reviewing the data and our fieldwork experience, they may not be the right questions. The right question is not: What can Dikmas contribute to micro-enterprises? Rather the right question is: What can micro-enterprises contribute to Dikmas accomplishing its mission of providing out-of-school learning? Exploring this question leads me to recommend that Dikmas maintain a micro-enterprise program, but one that is substantially reformed.

Here I recommend a new strategy for incorporating KBUs into Dikmas's larger community education efforts. This new strategy recognizes that Dikmas's primary mission is education and not economic development. But, it also recognizes that: (1) it is important that learning provide people with concrete benefits, specifically the ability to earn a living and (2) participating in micro-enterprise can be a powerful learning experience.

The new strategy builds on what has been learned from the experimental "Try Out KBU" program, but differs from it in important ways. Overall the strategy calls for targeting KBU resources more precisely, supporting KBU for longer periods of time and focusing more on improving members' skills and economic understanding after the KBU is established. Here are the key elements of the strategy.

1. KBU membership will be restricted to either completers or learners currently enrolled in literacy programs or Packet B.
2. KBUs will be formed and managed by the new Community Learning Centers (CLCs) being created by Dikmas.
3. NGOs who manage the CLCs will manage the KBU program on a performance-based contract.
4. KBUs will continue to be supported by a technical resource person (TRP).
5. After an initial grant of a "Learning Fund" support of groups will be through a revolving loan fund.
6. KBU groups will be supported over a two-year period, with support contingent on achieving certain developmental goals.
7. Specialized training will be available through the new community learning centers to support the development of the group members and Technical Resource Persons.
8. An improved MIS system should be created to make it easier to monitor program effectiveness in a timely manner.

4.2 Rationale

Virtually all analysts agree that as Indonesia attempts to recover from the current economic crisis, the informal economy will play an increasingly important role. This sector will provide employment opportunities for both new labor market entrants and those who have fallen out of the formal wage-earning sector.[1] Given the importance of this sector in the mid-term future it is important that Dikmas help the learners it serves succeed in it.

KBUs also have value for Dikmas because they contribute to its primary mission learning through community based programs. Research in the field shows that potential membership in KBUs motivates learners to complete literacy and Packet B programs. In addition the excitement of starting and working in a micro-enterprise encourages students to use the skills they learned and to acquire more skills. If KBUs are open to any school dropout it ceases to be a motivator to complete learning programs. Hence I recommend that membership be restricted to program completers or currently enrolled learners.

Extending KBU membership to current learners should only be done if the learning is groups is prepared to build learning activities around the KBU, which contribute to literacy training or Packet B instruction. Linking these educational program with the KBU will take a skilled instructor supported with specialized learning materials. Such as case studies of successful KBUs. Another advantage of this approach in the learning groups instructors can identify learners who have the skills and motivation to be successful in the KBU. This in long run should lead to the formation of stronger groups and more successful businesses. Thus participation in the learning group and the KBU will overlap as indicated by the following diagram.

Figure 4.2 Relationship of Learning Groups and KBU

Time →			
Learning Group Formed	Regular Content	Business Related Content	
	KBU Group Formed	Business Begins	Business Expands

Fieldwork shows that groups often get started producing and selling and then stall because they lack the business skills and sophistication to sustain them through a set back or they can not accumulate the capital to expand. World Bank research suggests that it takes up to eight years before a micro-enterprise can lift a family out of poverty and become self-sustaining. So it makes sense to extend the support for the groups and reduce it gradually over two years. This way the groups have a chance of reaching the point where they could sustain a family.

Fieldwork identified a lack of economic understanding, business skills, bookkeeping and an inability to establish a banking relationship or gain credit as a major barrier to groups' success. This strategy recommends additional training for both members and TRPs over the extended

[1] For one example of this type of analysis see *Employment Challenges of the Indonesian Economic Crisis*. International Labour Organization, Jakarta Office, United Nations Development Program. June 1998.

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support period to build these skills and provide incentives to get groups to establish banking relationships.

4.3 Management of the New Program

The new program will be delivered through the Community Learning Centers (CLC). It is assumed the centers will be managed by a local NGO with the participation of the local community. As part of its proposal to Dikmas the CLC will submit a proposal to form a given number of KBU groups, for completers of the literacy and Packet B groups. The proposal must also show evidence of an agreement with a local bank to cooperate with the program.

The CLC and its managers will be responsible for the following activities:

1. Conduct an overall assessment of the economic potential of the area. Simple directions for conducting such assessments have been published by the ILO.[2]
2. Recruit and orient TRPs.
3. Manage funds and payments to TRPs based on their performance.
4. Receive and evaluate KBU proposals.
5. Allocated and manage learning funds.
6. Receive and evaluate revolving loan fund applications.
7. Manage loan fund, including collections, in cooperation with a local bank.
8. Offer specialized training courses for KBUs.
9. Recruit members for the courses.
10. Monitor groups progress.
11. Report regularly to Dikmas on groups` progress.

4.4 Financial Support

The financial strategy for the KBUs is get them off to a strong start by providing direct risk free support, then to slowly with draw the support and allow groups to take on risk as they mature. The ultimate goal is to create self-sustaining groups who are successful in mainstream market and credit system.

Groups will be supported over time by a mix of technical assistance from the TRP, an initial learning fund and later revolving loans. Here is the plan for how support would be provide over time based on the group`s stage of development.

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[2] *Community Based Training for Employment and Income Generation*, Vocational Training Systems Management Branch, ILO Geneva.

Table 4.4 Financial Support by Stage

Stage	Financial Support
Start Up (Three to Six Months)	• Learning fund Rp. 400,000 • TRP support Rp. 400,000
Establishment (One Year)	• Interest free revolving loans up to Rp.1,000,000 • One year to repay. • Support TRP up to 10 months at Rp. 80,000 per month.
Growth (One Year)	• Revolving loan funds up to Rp. 1,500,000 with interest of 1% a month. • One year to repay.
Maturity (Open ended)	• No Financial Support • KBUs participate in regular financial system or other micro-enterprise programs

The financial support will be tied to a variety of requirements summarized the "Program Summary" the matrix below.

4.5 Extending Learning

Field research clearly shows that the development of the groups is limited by a lack of skills and knowledge. Fieldwork also shows that the TRPs have successfully transferred the skills needed to produce the product or service to the group but have often lacked the business and financial sophistication to help the groups grow. This lack of sophistication is one barrier that has kept the groups from participating in the banking system or other micro-enterprise programs. In keeping with Dikmas's primary mission of education and based on fieldwork I recommend Dikmas develop training courses in three areas, basic business skills, book keeping and economic understanding, which can be delivered locally and customized to the local situation. The matrix below describes the courses to be developed and their target learners. These same topic could be integrated into Packet A and B curricula if these groups are to be done in conjunction with a KBU.

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Table 4.5 Recommended Course Topics

Course and Topics	Target Group(s)
Basic Business Skills • Planning • Decision making • Distribution systems • Pricing • Selling • Packaging	• TRP • All group members
Book Keeping • Benefits of record keeping • Calculating and recording costs • Calculating and recording revenue • Calculating profit and loss	• TRP • A group member(s) who will specialize in this function
Basic Economic Thinking • Supply and Demand • How the market sets prices • Value chain • Inflation • Competition • Banking: Borrowing, savings and interest	• TRP • Group leaders • Group members

To be effective the recommended training must use an active learning approach. These courses should be supported by instructional materials built around case studies of real groups (the field notes in Appendix A of this report could provide a starting point). Instructional materials, particularly the book keeping and economics must be at level that learners can master, and must focus on the issues and business skills needed by micro-enterprises.

4.6 Protecting Program Integrity

4.61 Rationale for Grants and Subsidized Lending

Many experts in micro-enterprise development recommend against providing grants or below market loans to groups, because it encourages more established and well connected businesses to seek the funds and pushes out the poor for whom the program is intended. It is also argued that subsidized credit will drive out market oriented full service financial institutions and leave local people in rural areas without financial services when the program ends.

I still recommend an initial grant and interest free loans because I believe we can protect the integrity of the program other ways. Grants and subsidized loans will help the program achieve its purpose serving the poor. Experience with the revolving loan fund KBU program found that the poor served by the program, who had no business experience were afraid to borrow for fear they would be unable to pay back the loan and would loose what few resources they had. Hence, local Dikmas staff created few KBU groups form the Packet A and B learners. When they did

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form groups of these learners they did it by having them work in an established business as an employee or apprentice and the business owner got the loan. The experience in the Try Out KBU program was that with the learning fund, which was a grant, it was possible to get Packet A and B completers to join KBU groups. Therefore, I recommend an initial grant to get the groups started, with a clear expectation that later money will be lent and that eventually groups will move into the regular credit market. Fieldwork shows that existing groups for the most part do not participate in the banking system, and this program proposes requiring groups to begin saving in banks in order to receive credit. Thus, the program should ultimately strengthen local financial institutions not undermine them.

4.62 Paying NGOs for Performance

The integrity of the KBU program will be determined in large part by the NGOs who are selected to run the CLCs. In selecting NGOs Dikmas must carefully evaluate their financial strength, experience working with the poor, managerial capability and commitment to the integrity of the program.

Managing a program delivered by autonomous NGOs rather than government staff requires completely different management strategies. I recommend that all contracts with NGOs be performance based. This would mean instead of paying NGOs a fixed amount for forming so many groups, at least part of the NGOs fee would be based on the success of the groups. Over the last 15 years in the United States the public job training system, in which training is largely delivered through non-profit and some cases for-profit NGOs, has moved to performance based contracts with good results. A key feature of performance based contracts is that NGOs who perform well can earn additional resources. It is a system of rewards and sanctions, not just sanctions. While there are many different ways to structure performance based contracts, I recommend a simple approach since this is a new system in Indonesia. In negotiations over their proposal NGOs will be approved to form a given number of KBUs. NGOs will receive start-up funding to begin the project but additional payments will be contingent on groups achieving the benchmarks described later. Only the NGOs fee (money given them for running the program not the money to support the TRPs and Groups) will be paid on a performance basis. The table below provides an Illustration of how the system would work. These examples are based on the following assumptions:

- Two NGOs each receive a contract to create and support 20 KBU groups made up of Packet A and B completers, with 15 persisting to the establishment stage..
- Each NGO's fee is to be Rp. 10,000,000.
- Dikmas staff will verify that benchmarks are achieved.
- NGO 1 successfully forms all 20 groups and 18 groups achieve the establishment phase of development.
- NGO 2 only forms 15 groups and only 10 reach the establishment phase of development.
- Fees are adjusted for the proportion of success achieved.

Table 4.62 Performance Based Payments for NGOs

Benchmark	% of Fee Paid For achieving Benchmark	Successful Example NGO 1	Less Successful Example NGO 2
Program Starts Up	25%	Rp. 2,500,000	Rp. 2,500,000
Groups Formed (Goal 20 Groups)	25%	Rp. 2,500,000 (20 groups formed)	Rp 1,870,000 (15 groups formed)
Groups Reach Establishment Phase (Goal 15 Groups)	50%	Rp. 6,000,000 (18 groups succeed 120% of goal)	Rp. 3,000,000 (10 groups succeed 60% of goal)
Total Fee Earned		Rp 11,000,000 (110% of contract)	Rp. 7,370,000 (74% of contract)

With this system Dikmas is only required to monitor performance rewards and sanctions for performance are built into the system. Finally Dikmas must be willing to not renew contracts for groups who fail to perform.

4.63 Targeting the Program

To insure the program serves the poor participation will be restricted to completers or current learners in literacy training or Packet B, insuring participants are in the population Dikmas wishes to serve. It will be important that Dikmas monitor this closely in the field.

4.64 Making Sure Participants Own the Enterprises

The model in which the TRP is the owner of an existing business and simply uses KBU members as employees should not be permitted under this program. KBU members should have ownership of the micro-enterprises created by the program. That is their best long run prospect for raising their income above the poverty line.

4.7 Program Summary

The matrix below illustrates how the various components of the program will fit together and how all components are tied to the development of the groups.

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Stage of KBU Development	Needs	Services or Interventions	Cost and Recommended Time Period	Requirement to Complete Phase
Start-up (Groups learn to produce, begin to sell)	• Help forming and organizing • Selecting product or service • Developing business plan • Finding raw materials and markets • Learning production skills • Learning business skills • Getting start up capital	• CLC identify members, TRP and helps them form. • CLC provides assistance developing an initial business proposal. • CLC orients and provides business and bookkeeping skills training to TRPs as needed. • TRP helps group with skill training and business planning • CLC provides learning funds.	• Learning fund for start-up Rp. 400,000 • TRP support Rp.400,000 • Three to six months	• Have produced and sold product several times • Identified market for product. • Selling at an operating profit. • Group has begun to save. • Submits business plan for growth.
Establishment (Group begins to produce and sell on a regular basis, establishes banking relationship)	• Guidance in planning Production and sales. • Guidance for maintaining quality. • Access to additional capital. • Resolving problems within the group. • Establishing a banking relationship. • Access to capital to expand. • Find additional markets. • Control more of the distribution chain.	• TRP and CLC staff provide coaching and advice. • TRP and CLC help make links to sources of credit. • CLC provides basic bookkeeping training to at least one group member. • CLC also provides business skills and economic literacy training to members and TRP. • TRP and CLC staff help Group identify barriers to growth and select appropriate interventions. • CLC helps group establish banking relationship.	• TRP support reduced to Rp 80,000 per month, maximum 10 months. • Revolving Loan for expansion up to Rp.1,000,000 based on proposal evaluation. • Revolving loans over Rp. 400,000 dispersed in two payments. Must have banking relationship to receive second payment. • Loan repaid without interest in one year.	• Group must increase production and sales. • Group establishes and maintains financial record keeping. • Group continues to save. • Establishes banking relationship through savings and/or borrowing. • Submits second loan application proposal to CLC to improve quality, diversify products, expand market, request TRP support.

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Growth (Group is established but needs to make changes to grow)	• Evaluate product mix and quality. • Find new markets and channels of distribution. • Brand and package product to command a premium price and get distribution. • Improve efficiency of production or introduce new machines or materials to produce more. • Access to capital for expansion.	• TRP or CLC staff provides technical guidance, or find a source of advice to help with quality, production, marketing or distribution issues. • TRP and CLC staff provide assistance with required government approval for labels and packaging. • TRP or Dikmas staff help provide access to credit through bank with which the group has established an account. • CLC continues to offer specialized training in business, bookkeeping and economics.	• CLC may support TRP at Rp. 80,000 a month if 10 months not used up in earlier stage. • If group has repaid initial loan it may borrow an additional Rp. 1,500,000 at 1% per month interest. Repayment in one year. • Group makes timely loan payments. • Maintains banking relationship.	• Group must report progress on business plan quarterly. • Maintain bookkeeping. • Show savings. • No support after this stage.
Maturity (Enterprise reaches optimal size)	• Membership in the group changes. • Ageing equipment needs replacement. • Additional competitors enter the market. • Market preferences shift.	• Business no longer needs assistance. • Business can borrow at market rates. • Training courses remain available at CLC.	• No Dikmas support.	• No requirements.

4.8 A Management Information System for Monitoring and Evaluation

4.81Overview

Policy development and monitoring in Dikmas's past micro-enterprise programs has suffered from a lack of information on the performance of the KBUs formed by the program. If Dikmas proceeds with a strategy of contracting with NGOs to run the program reliable data on KBU performance will be even more crucial. The data collected in the system will be used for evaluating program success, monitoring the performance of NGO contractors and in part determining their compensation.

4.82 Data elements

The research performed in this evaluation suggests the key elements that could be captured and stored in a readily accessible electronic database, at both the kabupatten and national level. The table below contains those data elements with definitions.

Table 4.82 Recommended Data Elements

#	Data Element	Definition
Descriptive Data		
1	Identification Number	Each KBU should be assigned a unique identifier, which includes codes for province and kabupatten.
2	Group Name	
3	Group Location	Detail on location and CLC, which started KBU
3.1	NG0 Sponsor	Name and location data for NGO sponsoring group through CLC
4	Date Formed	Date groups proposal was approve.
5	Product or Service Produced	Description of product or service to be produced.
6	TRP Name	
7	TRP Qualification	Reason TRP was considered a good choice to help the group.
8	# Members	Number of People in group
8.1	# Women	
8.2	# Men	
8.3	#Literacy Program completers	
8.4	# Packet B completers	
9	Amount to be paid TRP	
10	Amount of Learning Fund	
Start-up Phase Completion Report		Data to be submitted on each KBU when they complete the start phase
11	# Members still active	
12	How learning fund was spent	Amount on tools, equipment, raw materials, etc
13	Weeks producing and selling	
14	Total Revenue	All revenues from group's sale of product or service
15	Production costs	Costs in terms of raw materials, transportation and direct inputs, not cost of tools or other capital
16	Operating Profit or Loss	Difference between all revenue and production costs
17	Submits business plan for	If the group submitted plan for support in the next

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	establishment stage	"establishment phase"
Establishment Phase		
18	Proposal Approved by NGO	
19	Amount of Loan	
20	Amount for TRP support	
21	Business Plan Summary	Product to be produced. Goals such as: product diversification, market expansion, quality improvement, increased production, etc.
22	Loan Repayment by Quarter	Amount of loan Repaid by Quarter
23	Banking Relationship	Bank and description of relationship, saving account, loan. Etc.
24	Members active each quarter	Number of members working on production or selling each quarter.
25	Revenue by Quarter	Total revenue each quarter.
26	Production Costs By Quarter	Total direct production costs each quarter
27	Gross profits	Profits before loan repayment.
28	Quarterly savings	Amount group has saved each quarter.
29	Business Plan for Growth Phase Submitted	
29.1	Final Status	If KBU does not apply for continues support. What is its status did it achieve goals set in proposal, is group or members still active.
Growth Phase		
30	Proposal Approved by NGO	
31	Amount of Loan	
32	Amount for TRP support	
33	Business Plan Summary	Product to be produced. Goals such as: product diversification, market expansion, quality improvement, increased production, etc.
34	Loan Repayment by Quarter	Amount of loan repaid by Quarter
35	Banking Relationship	Bank and description of relationship, saving account, loan. Etc.
36	Members active each quarter	Number of members working on production or selling each quarter.
37	Revenue by Quarter	Total revenue each quarter.
38	Production Costs By Quarter	Total direct production costs each quarter
39	Gross profits	Profits before loan repayment.
40	Quarterly savings	Amount group has saved each quarter.
41	Final Status	If KBU does not apply for continues support. What is its status did it achieve goals set in proposal, is group or members still active.

4.83 Using Data for Monitoring and Evaluation

The first use of the data will be to help Dikmas administrators at the kabupatten, provincial and national level monitor program progress by generating periodic reports. The system should reveal for example how many groups persisted from the start-up stage to the establishment stage, what types of products are being produced, and rough estimate of the groups profitability.

At the kabupatten level the reports will service as a basis for making performance based payments to the NGOs sponsoring the groups. The database should include data on all the benchmarks to which NGO payments are tied.

The database also provides a basis for monitoring the program. National and kabupatten level Dikmas staff should randomly choose individual KBUs, then go out to the field and audit the reported data. For example, groups should be keeping regular financial records and have a banking relationship in the establishment stage. For the randomly selected groups program monitors should inspect the records of the groups and match it against the reported progress.

In the past Dikmas has had trouble accounting for revolving loan funds at the Provincial and Kabupaten level. Using this MIS system central and provincial auditors should be able reconcile balances in loan fund accounts with the level of activity reported in the system.

Appendix A:
Field Notes

- West Java
- East Java
- West Kalimantan
- North Sumatra
- Lampung

West Java Field Notes
February 1999

Wednesday, February 2, 1999

Location: Kodya Bandung
Kec. Kiaracondong
KBU: Two Snack Food Groups, (Named Dahlia and Aster)

Activities: Interview Secsi Dikmas, Penilik, TRP (Technical Resource Person), and KBU Members

Keppala Secsi:

This Kab had 50 KBU groups in 1998-99. Each group had a TRP, and some TRPs were recruited with the help of a local NGO. Most are local business people. Finding qualified TRPs does not appear to be a problem.

Secsi estimates that about 50% of the KBU persist beyond one year. The economic crisis has made some of the materials the groups use much more expensive and made it difficult for them to continue. For example, one group makes leather bags and to process the leather they need some imported chemicals, which have gone up greatly in price.

In comparing the old revolving fund KBU with the new "Try Out KBU" the Kappela Secsi believes under the old program the groups felt more responsible because of the pressure to return the funds. The negative aspect was that it discouraged members from joining the group. The new model is better able to help groups that are just starting out.

Under the new program there has been more success in forming groups out of Packet A learners, many of whom already had a small business. In most cases learners work independently rather than as a group. They practice together to learn skills then produce and sell on their own. Most groups meet three times a week.

He believes the new KBUs are doing a better job of supporting the functional literacy program. He believes they do practice reading, writing and numbers in the KBU groups.

There has not been much success getting the groups to borrow. The Secsi firmly believes all banks including BRI will require collateral to borrow, which most groups don't have.

Dahlia and Aster KBUs

This KBU makes tempe. It actually two groups with 10 members who work as a single group. The members were not Packet A or B learners. They are lead by an TRP who has experience in the Tempe business. They choose Tempe because it is well liked and easy

to sell. Raw materials for the product are cheap and easy to obtain. They sell the product in the market, to warung and door-to-door.

The members meet together to produce everyday at one members house.

The group had no written financial records but on the spot we tried to create a profit loss calculation for a week. The best estimate is that they earn a profit of about Rp. 68,000 a day, allowing each member who worked that day to take home about Rp. 10,000

The group was recruited through the PKK a NGO with a government affiliation, the group has some savings, which are held by the NGO.

In the future the group would like to use its savings to expand by adding cake baking to their business.

Penilik

The Penilik reported that it had not been difficult to form groups. It had been difficult for members to select a business. Marketing of the product was the biggest problem the groups had. He says groups are unwilling to deal with banks. They believe they do not have the experience that banks want. If groups were going to borrow they would borrow from Pegadaian To Gadsi (a government agency?) or a local moneylender.

Thursday February 3, 1999

Location: Kab. Bandung
Kec. Banjaran

KBU (Product): Krepick (two groups)

Activities: Interview Secsi Dikmas and staff, Penilik, members, observe process.

Keppala Secsi and Staff

In the Kab. The Secsi and his staff reported that most KBUs made snack foods. In rural areas several groups made products from coconut palms including brooms, and some house wares.

They reported no problems finding TRPs, and usually chose TRPs who had business experience with the same products the groups were producing. TRPs key functions are to coordinate the group and teach them how to sell.

Persistence of KBU groups has been high. They report of that of 20 groups started in 1997-98 16 are still working. Most groups have been formed from Packet A learners. The staff believes good bookkeeping is a key to success.

The interesting thing about this Kab is that it is the only place I have visited where Dikmas staff reports a high level of borrowing. They report that about 25% of their "Try Out" KBUs have borrowed from a bank. Most have borrowed from BRI and few from BPD. Dikmas staff were well aware that groups that did need collateral to borrow from the special mico-enterprise loan programs. The bank will lend based on the recommendation of the Penilik. Borrowing has been easy because a local Penilik worked out a detailed arrangement with a local bank. So far all the groups have been able to pay back their loans. Peniliks have also helped groups set up savings accounts.

Staff here believes the new 'Try Out" program has been more successful than the old revolving loan fund KBU because of the role of the TRP. Since they are paid TRPs are more motivated and committed to seeing the groups succeed.

Two KBUs in Large Meeting Hall

We met with numerous officials, village people and members of 2 KBUs in the village meeting hall. All the groups made snack food, which was on display in the meeting hall. We interviewed a number of KBU members and one TRP.

The TRP was in the snack food business part-time and owned a warung. His strategy with the groups was to get them to specialize in different parts of the process. He reported that each group has saved Rp. 100,000 to Rp. 200,000 in the BRI.

Group members were both men and women. Most of the men were farmers and most women housewives. All reported that they joined the KBU to add to their existing income. Most appear to have been in Packet A or Packet B groups. Groups have only been working since last August.

The groups seem to operate at different levels. One group of women reported they met twice a week to produce and sell. Another group said they worked everyday. The groups appear to sell locally and at a market about 5 K away. Estimates of earnings varied.

Woman 1:	Rp. 7,000 for selling two days
Man 1:	Rp. 5,000 per day
Man 2	Rp. 5,000 per day
Man 3:	Rp. 6,000 per day

Groups seemed to handle money differently, one group which reported Rp. 500,000 in a BKPDD reported that the chairman handled all the money and put money in the bank when they had big profits. Groups both report they plan to borrow money and expand in the future but have not borrowed yet.

We visited one group, which was producing cassava chips and appeared to be a family group. It was set up under the old revolving loan fund KBU. They reported that they worked two days a week 6:00 am to 5:00 PM. And produce about 50 Kilos of product. They sell in town and locally, and make a profit of about Rp. 20,000 for every day they

work. They would like Dikmas to give them more money to expand. They have not borrowed from the bank.

Location: Kab Bandung
Kec. Soreang

KBU: Unreachable due to weather

Activities None

Friday February 5, 1999

Location: Kab Subang
Kec. Tanjungsiang

KBU: Palm sugar, five KBUS

Activities: Interview Secsi, Interview Penilik, meet members of five groups, observe process.

Keppala Secsi

The Secsi reported mixed success for the KBU in his area, of five KBU started in 1996-97 three are still working. He has found it much easier to recruit Packet A members into the "Try Out" KBUs and thinks that potential membership in KBUs motivates Packet A learners. He believes the addition of TRPs has been very valuable and helped the groups learn required skills. He believes the quality of the TRP is key to the group's success. Since they are paid he finds the TRP are committed to the groups. Generally finding TRP has not been a problem.

Once again this Secsi reports that no groups have borrowed and he believes local banks require collateral before they will loan to a KBU. He says he met with the banks (BRI specifically) and tried to set up a relationship for KBUs but banks did not cooperate.

He believes that while earnings of KBU members are very low, the members are satisfied because the little bit of money they do earn allows them to pay school fees and meet other important expenses.

In the future the Secsi suggests:

- ✓ Increase the length of time the TRP works with the groups to one year and increase his pay accordingly.

- ✓ If Packet A members already have a small business refer them to other micro-enterprise programs, only work with those who are starting from nothing.

Palm Sugar KBUs (6 Groups)

These six groups make a traditional product, palm tree sugar (Gulaaren), which is made by cutting off the tips of buds on a particular type of palm tree and collecting the sap that flows out twice a day. A tree will produce for two months. The sap is boiled down and flavored slightly until it is very thick, then poured into short lengths of bamboo and cooled into cakes of sugar which are wrapped in palm leaves and sold. The groups have been working for one year. Prior to the KBU only a couple individuals were producing the sugar. About 75% of the members are Packet A completers according to the Penilik.

The six groups have received to rounds of learning fund money the first each of the 30 members (28 men and 2 women) received Rp. 50,000 each and for reasons not completely clear they all got a second round of Rp. 25,000 in learning funds. Funds are principally used to "buy trees from farmers". The trees apparently are not cultivated and grow randomly. The members pay fee to the person who owns the land on which the tree sits. The price appears to be Rp. 12,500 to rent the tree for one harvesting cycle.

This appears to be a very profitable enterprise. Members report that they sell their cakes of sugar to chairman of the groups for Rp. 1,750, the chair sells them at the market or to small stores for Rp. 2,000. In one two-month harvesting cycle a tree can produce 900 cakes of sugar for total revenue of Rp. 1,575,000. There appear to be few other costs in production. The constraint is that it is difficult to find new trees to harvest. Although members claim if they had more money they could "buy more trees". They would like to borrow Rp. 1,000,000 and made preliminary contacts with an Islamic bank to do so, but have not actually borrowed. The claim to have collectively saved Rp. 200,000 in an "informal bank". I could not get more specifics.

Location: Kab Sumedang

KBU: Snack Food

Activities: Interview Kasi Dikmas, Penilik, TRP, and two members

Kasi

The Kasi reports most the KBU formed in this area are making snack foods because with inflation that is all the leaning fund will support. More sophisticated types of production take more capital. He believes that KBUs are much easier to form under the tryout program than under the revolving loan fund in the past, because the learners were hesitant to take on the debt.

The Kasi had not found it difficult to find TRPs for the KBUs; he had some help from the Department of Industry in finding TRPs.
The Kasi would classify the persistence of KBUs started in 1997-98 this way:

- ✓ 50% Very Active
- ✓ 25% Less successful still active on some level
- ✓ 25% Gone-out of business

About 75% of the people in KBUs are Packet A learners.

No groups have borrowed from a bank. The Kasi says he approached local lenders and found an NGO (Ikapenmas) which is willing to set aside a pool of funds to lend to the KBUs, the interest will be lower than a bank, but terms and conditions will depend on the particular business. Minimum loan will be Rp 300,000.

Snack Food KBU

All members of this KBU are women and Packet A completers. The TRP is and education civil servant who had learned the process in his family. The group has bee working since September 1998.

Members report they joined to learn how to run a business and earn money for their families. The produce as a group. In a month they will complete five production cycles, each of which makes about 4,000 pieces of snack food. Each individual in the KBU sells most to neighbors and some small warong in the area.

The group estimates their monthly profit to be about Rp. 50,000. In three months each group member has earned, Rp 27,5000. The group has savings of Rp. 45,000. The chair of the group holds the savings. In the future the group would like to produce other types of food products so they could increase sales.

Saturday Februarv, 6 1999

Location: Kab Tasikmalaya

KBU: Mushroom KBU

Activities Interview Secsi Dikmas, interview Penilik, interview TRP and five KBU members

Secsi Dikmas

Reflecting on the differences between the old revolving fund KBUs and new "Try Out" KBUs, the Secsi noted that inflation had mad the learning fund very small, especially for

businesses that need tools or equipment. But people had a hard time paying back the money in the old system. The TRP idea has been a success and lead to stronger groups.

The Secsi reports they have had some problems finding TRPs . He believes that paying the TRP for just 6 months is not long enough. A business needs more time and support to really get going and be self-sustaining. It the program continues he would like to see the TRP paid more over a longer period of time.

None of the groups in this area has borrowed. Once again Secsi firmly believes that banks will require collateral. Although this areas just started the "Try Out" program in October 1998, so they have not had groups start looking to borrow yet.

In the future the Secsi believes:

- ✓ TRP is very important their role should be expanded and they should be paid more.
- ✓ Leaning fund needs to be increased.
- ✓ Combine Packet A and B completers with other better educated people to make stronger groups.
- ✓ Provide training and orientation for TRP so they can be more effective, especially bookkeeping training.

Mushroom KBU

This KBU grows mushrooms in a shed attached to an Islamic elementary school. A single TRP, who is a sewing teacher in a private training center, leads five groups of unemployed young men. The TRP came up with the idea of mushroom growing and learned the process himself before beginning the group.

The process is quite interesting. In the wild the mushrooms grow on the roots of trees. To cultivate them your buy sawdust from the same tree, mix it with lime, rice husk, and corm meal. This makes the growing media. The media is packed into plastic bags and spore of the mushroom (cost Rp. 3,000 for enough o do 20 bags) is sprinkled on the top of the bag. The bag is sealed except for a small whole stuffed with newspaper. The bags are sprayed three times a day to keep them moist. When mushrooms sprout the bags are opened, six days later elegant white mushrooms are harvested. The media is scraped off the top of the bags. The bags are sealed and a second generation of mushrooms sprouts form the spore of the first. For some reason each subsequent mushroom is slightly smaller. The process continues through seven cycles and then all the media is used up.

This looks like a good choice of business. There are few mushroom growers and the group claims to have been able to grow mushrooms of better quality than commonly found in the market. Each of the five groups sends two members to sell the mushrooms for Rp. 6,000 a kilo in the local market, or door to door.

The group started in September 1998. Each of the five groups got only Rp. 125,000 in learning funds. Each group spent Rp. 100,000 on materials for the media and Rp. 25,000 equipment. The groups work together on a schedule set up by the TRP. So fare the group has had two harvests and earned total revenue of Rp. 90,000. So far all the money has gone into additional production. None of the members have been paid. A treasurer handles all the money the group does not have any bank accounts. The space they work in they get free from the Islamic school.

The TRP says each group could easily spend up to Rp. 400,000 to really get production going. He is confident they could sell much more than they produce. He says planned to borrow from a bank, but is not sure they would lend to him, or the members could be relied on to pay it back.

Four of the five members interviewed were packet B completers. The members all said they would eventually like to have their own business producing mushrooms.

Penilik

The Penilik reported that he hoped to help the group borrow from and Islamic NGO. He believed the group would need collateral to borrow from BRI.

Location: Kab Tasikmalaya

KBU: Mawar KBU, Jute Mat making

Activities Interview Penilik, interview TRP and five KBU

Location: Kab Ciamis

Mat KBU

This KBU is located in the village of Singkap. The village is a center for the production of Jute mats, individual households dye and process the jute while others weave the mats. This KBU was formed out of Packet A learning group. The women already worked as mat weavers for a local factory but the Penilik believed they could earn more if they produce and sold on their own. The women apparently already owned their own looms, which cost about Rp. 150,000. The members produce at home but meet twice a week to discuss difficulties.

The TRP is also the person who buys from the group. He has a small warehouse from which he sells locally produced maps to large distributors who come to the village to buy. The women used their learning funds to buy jute. The mats are woven into standard sized panels in various patterns. The women report that with the supplies bought by the learning fund they can weave 12 panels, which takes three days. They get paid Rp. 6,000 per panel for gross revenue of Rp. 72,000 their costs are Rp. 50,000, for a weekly profit of Rp. 22,000. This appears to be a hypothetical scenario. Because when pressed one

women said in the last week she made 6 panels, at a cost of Rp. 25,000 and paid Rp. 36,000. Still the women claim that if they worked in the factory they would make Rp.2,000 less in a week.

The TRP says he would like to sell to a distributor in the city, where prices are higher, but his volume does not warrant the transportation cost. So he sells to the local distributor.

We asked the women if they had saved any money and they laughed and said they used all the money to eat.

KBU: Broom KBU, Name: Motekar

Activities Interview Secsi Dikmas, Penilik, TRP, KBU members

Location: Kabupatten Chamis

Secsi Dikmas

The Secsi was new to the area so he could not provide much background on earlier phases of the program. He did report that of 20 KBU started in 1997-98 10 are still working. He believes the TRP has been a useful innovation, but that funds to support the TRP are insufficient since the run up in inflation. Current the TRP only gets Rp. 40,000 a month.

The Secsi does not believe any of the KBUs has borrowed money yet. He believes it takes a full year for groups to really master the business they have started. Also in his experience TRPs may not know themselves how to deal with the bank. The TRPs tend to focus on the production process and not business aspects of the venture. Peniliks have many other demands on their time and can not really support the groups. The Secsi also believes that local banks will require collateral before groups are allowed to borrow.

The Secsi believes that groups of Packet A and B can be successful KBUs if the members already have some work experience. He thinks they have a better chance of success than groups made out of Junior or Senior High School dropouts. He also believes that being in a KBU is a powerful motivator for keeping people in Packet A and B groups. He believes KBU will be needed in the future. The learning fund is much too small in his view it should be raised to Rp. 500,000. ~

Motekar KBU

This group makes brooms from palm fiber. On one level it appears to be a good choice for a business in that they are the only broom makers in the area. The group has five members including both men and women. It has been operating for two years, since August 1997.

The TRP is a village women who leaned to make brooms from her grandfather. She has successfully taught the women the required skills but has little business experience to offer the group. The group produces about 40 brooms a day. Members work at home doing components of the production process. Members are paid by the piece for what they produce. For example:

Payment	Task
Rp. 100	Attach bristles
Rp. 100	Sew bristles
Rp. 100	Decorate with yellow plastic thread
Rp. 50	Comp fibers
Rp. 350	member earnings per broom
Cost	Material
Rp. 500	Fiber
Rp. 150	Handle
Rp. 50	Thread
Rp. 700	Total raw materials
Rp. 1,050	Cost of production

Brooms sell individually in the village for Rp. 2,000 and in groups of 20 to warongs and in the market for Rp. 1,450. The chairman takes an Rp. 200 commission on each broom sold. Other incidental costs appear to each up the rest of the profit.

While the group has survived for two years, they operate on a very narrow margin and have not saved any money. The group resists raising the price , as they do not believe people will pay more. It appears that their capital is slowly eroding, as they complained that they could produce more if they could buy more raw material.

Preliminary Finding

1. Program appears to continue to do a better job of reaching Packet A and B completers than the earlier revolving loan fund KBUs.

2. The focus of the groups continues to be earning over learning.

3. The use of TRPs appears to be a successful innovation that led to stronger and more successful groups. Limits appear to be that inflation has eroded the value of the incentive paid the TRP, and the fact that while many TRPs are skilled in production they have limited business and financial stills.

4. The financial crisis has had two impacts on the program. First it has reduced the value of the start up capital so that groups must focus on activities like snack food that have very low start-up costs. The value of being in a KBU has increased as other alternatives for earning have become more limited.

5. Groups have made little progress in developing banking relationships. Very few KBUs have borrowed or even established bank savings accounts limiting their potential growth. Many factors contribute to this. The Peniliks lack of financial sophistication, a believe that there are not bank programs for lending without collateral, and a lack of confidence in group members that they could pay back the loan.

6. A general lack of business skills and a lack of basic economic understanding limit the groups' development and their impact on the local economy. Specific skill areas missing: basic marketing principles especially pricing, an understanding of the value chain, understanding the value of selling outside the village.

Field Notes From KBU Visits
East Java
April, 1997

Overview

During a one- week visit to East Java I was able to accomplish the following tasks:

1. Visit two Kabupaten Trenggalek and Magetan, and visit seven KBUs set up under the new "Try out program" and interview members and TRPs.
2. Visit three KBUs set up under earlier phases of the program.
3. Interview Kanwil staff.
4. Collect data from KBU records in the Kanwil.
5. Interview Dikmas Kasi in both Kabupaten.
6. Interview Peniliks.

I begin this summary with an overview of the try out program taken from the data available in the KBU proposals. Next I summarize what I learned about the program from interviews with Dikmas staff at all levels. Finally I profile the "Try out" KBUs I visited in some detail and describe the KBUs from earlier stages of the program.

Status of the KBU Tryout Program

All "Tryout KBUs" began work in October. The program started substantially earlier here than in Lampung. All the "Tryout" KBUs we visited had been working for about six

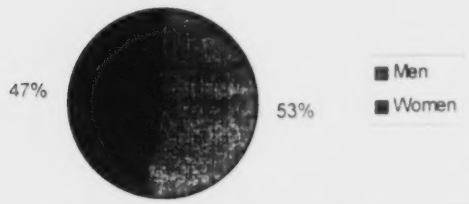
months so it was possible to get some information on their development over the medium term.

Little information was available on KBUs formed in earlier periods. I was able to visit three businesses which had received support earlier.

Characteristics of East Java "Try Out" KBUs

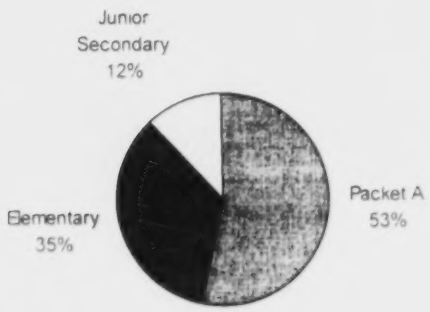
East Java has formed 400 KBUs with 1,000 Members under the "Try Out" KBU program. According to data reported by the Kanwil these are their characteristics.

East Java KBU Members By Gender



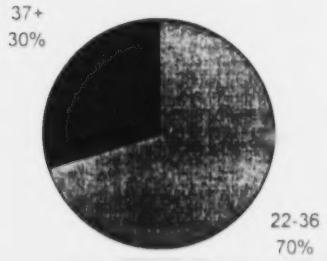
Targeting in East Java, on gender, seemed less successful than Lampung in that a majority of KBU participants were Men, while in Lampung over three-quarters were women.

East Java KBU Members by Level of Education



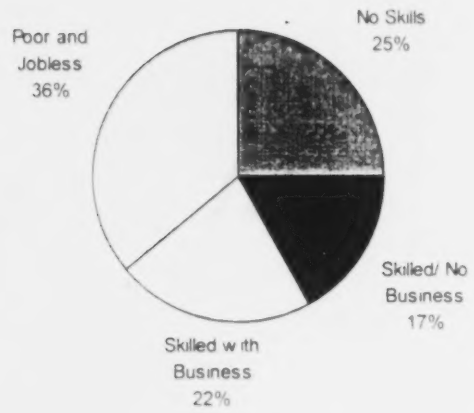
Despite having a lower proportion of women then Lampung, East Java reported that over half the member were Packet A completers. Indicating successful targeting on this characteristic.

East Java KBU Members by Age

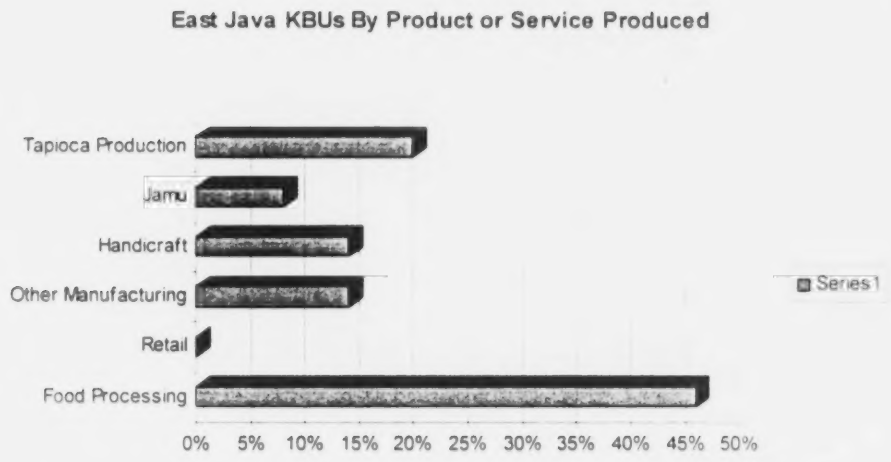


Age data was only available in two categories indicating that most members (70%) were in the 22 to 36 year old category, with 30% older than 36.

East Java KBU Members by Condition When Joining



East Java maintained occupational records differently then Lampung. They reports that the largest group, slightly over one third, were members who were "poor and jobless", another quarter are classified as having "no skills" it is not clear if this group was employed or not. About one in five members was skilled and had a business, indicating these members were already in the business for which the KBU was formed, and 17% had the skills required for the business but was not working in the business.



The types of goods produced were different from Lampung as well. While food processing, particularly snack foods was the most common activity by far, as it was in Lampung, there were other differences. Tapioca production was a major activity in East Java. Retailing which was a major activity in Lampung was absent in East Java. Handicrafts and other manufacturing made up 30% of the groups.

There was some data available on the characteristics of TRPs. The data showed that most (60%) of TRPs had completed SMA, 28% had completed SMP, 10% SD, and about 2% had completed an advanced degree. TRPs tended to be older than group members with only 55% between 22 and 36, and 45% older than 36. TRPs were reported to have between 4 to 7 years of work experience related to their groups business, and between 1 and 7 years of related training.

How the revolving loan fund works in Kabupaten Trenggalek and Kabupaten Magetan

It turns out that both these Kabupaten were among the first to participate in the KBU revolving loan fund and have excellent records going back to 1988, so by interviewing the Kasi and looking at records including a complete set of bank records I was able to reconstruct some of the history of what has proven to be a very successful program, at least in terms of not losing the money.

The current status of the fund is this:

Revolving Loan Fund Balances

	Trenggalek	*Mageton*

Total Lent	Rp. 40,800,000	329,600,000
Total Repaid	21,685,000	321,212,100
Total Owed	19,115,000	8,387,900

(Note in Trenggalek in Feb. 1997 the fund received Rp. 316,000 in payments)

The Trenggalek figures are based on loans to 108 groups, 104 groups are currently repaying and 4 groups have recently repaid completely. Since 1989 the program has approved loans to 448 KBUs. The last loan was made in January 1997. According to the Kasi he quit lending because he got a letter from the Kanwil saying he should stop until new directions came from Jakarta. The Kanwil reports that they received a letter from Jakarta saying they should stop lending. The balance in the bank account is Rp. 70,856,500, this according to the Kasi is because in addition to the money lent shown in the table above there is a "guarantee account with an additional Rp. 30 million.

In Magetan, with a much bigger program, 200 groups had received loans of over Rp. 300 million. Thirteen groups are still paying back. In this Kabupaten the Kasi showed me a second account with an additional Rp. 90 million. He could not clearly explain what was in the account, but it apparently receives substantial interest payments. I believe this may be the guarantee fund.

The Kasi in both cases report astonishing high rates of repayment 90% or more but bank records would seem to support it. The key to success according to the Kasi is careful selection of the KBUs recommended for borrowing.

The terms of the loan are this. Loans range from Rp. 200,000 to Rp. 500,000 for a typical KBU the interest rate is 17% per year. Period of repayment is one year or two years.

Both Kasis said they withdrew Rp. 5 million in interest from fund each year and distributed it. The Kasi in Magetan showed a complete file on how the funds are distributed. A copy of a recent distribution is attached. Money flows based on a percent, from the Kanwil office on down, to the Peniliks assistants. The largest payments Rp. 900,000 go to Mitre Dikmas Kecamatan and Mitra Dikmas Desa. The file included signatures acknowledging that individuals had received the money. They system described to us in Tenggelek was similar.

The administration of the scheme, as described by the Kasi, in Trenggalek, is interesting, in that it keeps the KBU members and the bank are removed from each other. The diagram below shows the relationship.

BRI

Lends to KBU Leader

Lends to KBU members

Repayments flow in the opposite direction. The KBU leader collects from the members. The Penilik collects from the KBU leaders and makes a single payment to the bank. Each Kecamantan is treated as an account or a loan in the bank records. In these two areas the Peniliks we interviewed did not complain about having to collect the loan although it appears in at least some cases individual leaders paid the BRI directly.

For example, in one case an older KBU funded under the revolving loan program the leader of the KBU showed us her payment coupons and receipts and told us she had paid the bank directly and not through the KBU. All the Peniliks we interviewed said they would be willing to operate the direct loan fund again. They said that while collections were sometimes difficult it is something they are willing to do.

This system or others like it are probably what created the incentive to lend to established small businesses under the revolving loan scheme, rather than start-up businesses run by learning groups. Since the Penilik will be held accountable for repayment, although if the group defaults he is not required to repay, he is unlikely to recommend any risky group for a loan.

At the Kanwil I was able to see a Provincial wide accounting of the revolving loan fund, although this account seemed to have some contradictions and there were no bank records to back up it. However, the last complete ledger page, dated December 1996, reported a provincial wide balance of Rp. 779,414,652, a substantial sum (a copy of the ledger page is attached).

Description of East Java KBUs Visited

KBU 1 & 2, East Java: *The Tapioca KBU*

KBU Product and Arrangement

This KBU is one of many in East Java which produces Tapioca from cassava root. The KBU is officially two groups of five women with the same TRP, in practice they function as a single group. The members work independently producing tapioca for a buyer who comes once a week from a near by city. The TRP is a village resident who was already in the Tapioca business.

Characteristics of Members and Recruitment

The members are all poor women, mostly wives. The Penilik recruited them into the program. It was also the Penilik's idea to produce tapioca. All the women are Packet A completers.

Role and Background of Technical Resource Person

The Penilik recruited the TRP who is a man and neighbor of the members who had been producing tapioca for a number of years. The TRP trained the women for two months. During that time the group met 2 days a week.

How the KBU Operates/ Stage of Development

After the two months of training was complete, the women began producing individually. They no longer meet as a group. Learning funds were used to buy the basic equipment for operation, plastic tubs, mesh screens and bamboo racks. An interesting feature of this KBU is that a local youth organization bought a gas powered milling machine to help the KBU. All the members mill their cassava in the machine for a small fee.

The Penilik says that he visits the group weekly to monitor their progress.

Financial Position or Plan of KBU

While production varies, the TRP reported that in a typical week a member of the KBU can process 700 Kilos of cassava root at a cost of Rp. 58,000. This will produce 175 Kilos of Tapioca which sells for Rp. 87,500, for a weekly profit of Rp. 31,500. This seems high to me but the TRP was firm on the figures. The group is saving Rp. 1,000 per month per member to build capital. The money is held by a member who is the treasurer.

The group reported that they are not interested in borrowing for expansion but will use their savings to improve their equipment.

KBU 3, East Java: *The Tempe KBU*

KBU Product and Arrangement

This KBU makes Tempe, a snack food made from soybeans and sold at the local market.

Characteristics of Members and Recruitment

The members are all poor women from the same village. Most are mothers. They are not Packet A completers.

Role and Background of Technical Resource Person

The technical resource person has had a business producing Tempe and other products made from soy beans for a number of years. She along with the Penilik recruited the members in the KBU. Her goal is to see "poor women make some profit."

How the KBU Operates/ Stage of Development

These KBU members also received two months of training from the TRP, during the training period they met 3 times a week to learn how to make Tempe. Learning funds were used to buy the initial supplies and basic tools. Now they meet once a month to discuss marketing and how to get more capital. The members produce and sell individually. The members can produce and sell every day at the village market.

Financial Position or Plan of KBU

According to the TRP if an individual produces every day they will spend Rp. 47,900 on soybean, spices, oil and wood. This will produce 1,750 tempes that sell for Rp. 50, for a total revenue of Rp. 87,500 and profit of Rp. 39,600 in a week. Again this seemed high to me. My sense is that the women do not produce and sell every day, and they may not be able to sell everything the could produce.

The Penilik and the TRP say that they have considered borrowing from the BRI to help the group expand production, but have not applied for a loan and have no immediate plans to do so.

KBU 4, East Java: *The Jamu KBU*

KBU Product and Arrangement

This KBU produces Jamu traditional medicine from herbs and spices. Essentially the group produces and sells as a group for the TRP, who gives them a commission on every bottle sold.

Characteristics of Members and Recruitment

The five members are women from the same village who are mothers. They are all elementary school completers.

Role and Background of Technical Resource Person

The TRP moved to the village from central Java and has been producing and selling Jamu for many years.

How the KBU Operates/ Stage of Development

The group began in October. The women received one month of training and then began to produce. They produce at the TRP's house. She owns the equipment and supplies. The TRP used the learning fund money to buy the initial materials.

One interesting feature of this KBU is that they buy one of their ingredients from another KBU which produces spices.

Financial Position or Plan of KBU

Essentially the women in the group buy the Jamu from the TRP after they produce it for Rp. 1,200 a bottle. They then sell the bottles for Rp. 1,500, for a profit of Rp. 300. It seems clear the TRP makes the bulk of the profit from the production and sale. The individual member can make between Rp. 3,600 and 4,000 a day depending on sales.

There is no systematic savings plan in this KBU.

KBU 5, East Java: ***The Sewing SKB KBU***

KBU Product and Arrangement

This KBU was unique among the ones we visited in that it was organized by and met in the SKB. The TRP was an SKB instructor. The five women in the KBU produced women and children's clothes, from designs and patterns they made themselves.

Characteristics of Members and Recruitment

The members are all young women who had been members of a sewing class at the SKB. The women are all young and unmarried. The instructor of the earlier sewing class formed the KBU and served as the TRP.

Role and Background of Technical Resource Person

TRP is actually a full-time employee of the SKB. She works there as an instructor. One of the subjects teaches in sewing and she seems to have an interest in fashion and design. One activity the members undertook was cut photos of women and children in different

clothes out of magazines and paste them in notebooks. These notebooks serve as the inspiration for their designs.

How the KBU Operates/ Stage of Development

The KBU has been operating since October, but is not extremely active. The KBU meets one morning a week, and members do some "finishing" work at home. It was hard to get any figures on how much the group produces. The TRP insisted that they had only produced 22 garments since the beginning. This is extremely low output. It does not appear that the members are earning much money. It seems to be more a social and learning activity for the members than a serious business. What is produced is sold at local stores.

The sewing machines the group uses are owned by the SKB. The clothes produced are sold to shops and now the group receives orders from shops for particular items.

The TRP spent the groups learning fund buying materials and supplies.

Financial Position or Plan of KBU

It was difficult to any firm number on the finances of the KBU. I did get the TRP to explain the profit margin on a single dress that had been produced. This particular dress, sold for Rp. 13,500, the cost of materials was Rp. 11,000, of the Rp. 2,500, the member who sewed the dress go Rp. 2,000, and Rp. 500 went into the groups capital fund.

In general this did not seem like a vary viable business, given the low level of production and the slim margin on the products. Although it did appear that the members were mastering a variety of skills, including: designing, pattern making and sewing. There appeared to be little emphasis on business skills.

KBU 6, East Java: ***The Kepala desa's wife's business KBU***

KBU Product and Arrangement

This KBU produces several types of snack food from cassava. The business is actually quite sophisticated, with standard packaging, a brand name, a full-time sales person and distribution to three provinces. It is, in fact, the business of the village's kepala desa's wife. The KBU members are simply employees who come and produce when there is an order and are paid Rp. 1,500 a day.

Characteristics of Members and Recruitment

The members are all former members of a Packet A group. The are older women who are mothers.

Role and Background of Technical Resource Person

The TRP is the owner of the business as noted. She has been producing for two years.

How the KBU Operates/ Stage of Development

After brief training the women began production. They do not work on a regular schedule but come to the TRPs house to produce when her salesman brings in an order. The learning funds were spent on raw materials.

Financial Position or Plan of KBU

The business its self seems reasonably profitable the TRP said in a typical month she will spend Rp. 3 million on supplies and realize revenues of about Rp. 4 million which is a reasonable net profit. However, the KBU members do not share in the profits they just get Rp. 1,500 for each day worked.

KBU 7, East Java: *The Soft Drink KBU*

KBU Product and Arrangement

This KBU is an established business which produces carbonated, fruit-flavored softdrinks for the local area. The owner of the business is the TRP. The KBU consists of four young men and a child, who work as his employees for a monthly wage.

Characteristics of Members and Recruitment

Members are all young men and one boy who have completed elementary school. It is not clear whether the owner or the Penilik recruited the members. All the members were unemployed before joining the KBU.

Role and Background of Technical Resource Person

The business owner who is the TRP was in the softdrink business in another city. He purchased a machine which infuses carbonation into the fruit flavored drink he makes himself.

How the KBU Operates/ Stage of Development

The KBU has been operating since October. The members were trained two days a week for a month before they began to work full-time for a salary. The business produces 400 to 700 bottle of soda a day. They are sold locally through wurungs and other retailers.

Financial Position or Plan of KBU

The business apparently grosses about Rp. 180,000 a day (600 bottles sold at Rp. 300). The members are paid a salary. The young boy gets Rp. 30,000 a month and meals, and the young men receive Rp. 60,000 a month.

KBU's from the Revolving Fund Program

In East Java we were able to visit three KBU which had been funded under the old revolving loan fund program. Two of the KBUs, one the produced shoes and one that produced sweets, were essentially established businesses that took on the loan to expand and employed some KBU members. The third was group of village women who produced snack food.

What was interesting about these two groups is both had participated in other government sponsored programs to promote small business. The shoe manufacturer, had participated in several Ministry of Industry programs, borrowed three times from the revolving loan fund and had many apprentices from various institutions working for him. The sweet maker, who was also an elementary school teacher, had had assistance from Ministry of Industry in the form of training. In addition Petra University of Surabaya had provide him the key piece of equipment for his process. The university also provided him with some market research. What is interesting about these two groups is that the connections to other programs were made by the owners. Dikmas staff did not facilitate the links.

The third revolving fund KBU was another group which produced snack food from cassava. This was a co-operative group, which borrowed and repaid as a group. The leader of the group, had to take individual responsibility for the loan, but she repaid by collecting each month from he members of the group. Interestingly she told us that she paid the bank directly, and showed us her coupons and receipts and did not pay through the Penilik.

West Kalimanton Field Notes
July 1997

Overview

Under the tryout program West Kalimanton has formed 100 KBUs with 500 members. While most groups make some agricultural related products, snack foods are not as dominant as in other provinces. Products produced include: oil stoves, furniture, make up, knitting, flower arrangements, making sugar and coconut oil.

In the staffs view the primary problems the tryout program has encountered is:

- Learning fund is too small to start many types of businesses,
- Villages are scattered far apart the program difficult to monitor and manage,
- It is often difficult for groups to get their products to market because of their remote location,
- In some cases it has been difficult to find a TRP in the village.

Some other related problems that have emerge is that low level of education of many members makes it difficult for them to acquire needed business skills. A particular marketing problem mentioned by the staff is that some stores will only take products on commission and pay for them when they are sold, reducing the cash flow for the KBU and tying up their working capital.

Field works indicates that the dominant strategy in this province was to create KBUs having existing entrepreneurs employ new people who fit the KBU target in return for the subsidy provided by the learning fund and the TRP fee.

To date, staff do not know of any KBUs that have borrowed money from a bank, or opened savings accounts. In general the TRP holds all the groups money. Staff believe that wait for a bank loan at BRI is five months and collateral is required.

There has been some problem fining TRPs for some groups because the local staff are requiring that the TRP work with the KBU for 1 year, and that makes the Rp. 120,000 meagre compensation.

The primary change the staff would like to see is an increase in the learning fund to about Rp. 500,000 per group, and they would like to see the TRP get Rp. 30,000 a month for one year to work with the groups.

One interesting finding that emerged is that in two Kabupatens visited Sungai Ambawang and Singkawank the Kasis insisted that their Kabupaten had not participated in the revolving loan fund KBU program.

Oil Stove KBU

This KBU, in Pontianak, is actually five KBUs, with 25 members and a single TRP. This means all together the groups received Rp. 500,000 in learning funds and the TRP got a Rp. 600,000 fee. Fifteen of the members were Packet A members and 10 were Packet B completers.

The groups make small, simple oil stoves. The stoves are made from used oil drums, using basic tools, tin snips, chisels, hammers and soldering irons. The stoves are sprayed a nice blue color with a spray painting device made out of a bicycle pump.

Business was an existing enterprise. The TRP had learned to make the oil stoves in Java and has been manufacturing them Pontianak for two and half years. The KBU has existed since March.

It was difficult to pin down exactly how the group works, members are supposed to come two or three half days a week and learn. They are paid Rp. 2,000 for each stove they produce. An experienced producer can make up to 8 stoves a day according to the TRP. On the day we visited only 2 or 3 members were in attendance, and the Penilik and TRP admitted that many members were not active. One member, who was working that day, was also trained in Java before the KBU was formed. This experienced producer said last week he made 28 stoves and earned Rp. 56,000.

The stoves cost Rp. 4,000 in materials. They whole sale to stores for Rp. 13,000, but most are sold door to door by a member who is a full-time sales person. He buys them for Rp. 14,000 from the TRP and sells them for whatever he can get, usually Rp. 15,000 or 16,000, leaving him a small margin. The salesman, sometimes rents a car for a day and drives out to surrounding villages to sell. Other days he carries his stock on a bamboo pole an sells in the local area, sometimes he will hire a small motor cycle to move the goods. In the last week the TRP claims to have sole 180 stoves. This would give him an estimated profit after materials and paying producers of Rp. 1.8 million. This sounds far too high to me. I believe the costs are substantially higher or he actually sold fewer stoves.

TRP does have a savings account, his wife handles the money, but he has not borrowed any money. He would like to expand his business buying some more sophisticated tools particularly power tools.

Overall this seems like another case of a local entrepreneur collecting a fairly large subsidy to provide limited training and perhaps employee a couple individuals. There is one other stove producer in the area so employment opportunities are limited. It seems

unlikely that members would start their own business because it would take a substantial amount of capital for members to start producing on their own.

Basket Weaving KBU

This KBU is located in Sungai Ambawang Kabupaten which is a riverside rural area not far from the city. It is actually two KBUs with ten members and one TRP who is paid for supervising two groups. The group has been active since March. The group makes baskets, plates, purses and other items from taro root which grows in the local river. Some times the group harvest the rood itself, and dries it. Other times it buys from other people in village.

The TRP has been producing and selling these products for 11 years. Prior to the KBU she had 17 people producing for her. When she started the KBU she says she simply added 10 more people, in fact in interviews one of the members said she had been working for the TRP a year before the KBU began. She has trained the KBU members, who are all women and Packet A participants, in how to make the products. Members usually work about two and a half days a week. On member interviewed said she gets paid Rp. 1,000 for each piece produced and in the last week produced 20 pieces, for income of Rp. 20,000 for working 2.5 days. It is not clear how many members are active. Only one members was available to be interviewed.

It was had to get firm figures on the productivity and profitability of the enterprise. The enterprise has good marketing and distribution, it that it is know to buyers and distributors who come to the village and place orders with the TRP. The TRP then has the members fill the orders. According to the TRP a typical item is sold to the distributor for Rp. 2,500 and sells in the store for Rp. 5,000. The KBU also sells directly to individuals in the village and to local store in Pontianak.

Neither the group nor the TRP have any banking accounts nor have they borrowed any money. Everything is financed out of the cash flow and they have not plans to borrow in the future. The TRP estimates it would take Rp. 200,000 to start this business. To date no members have made plans to start producing independently.

Singkawang Kabupaten

In this Kabupaten, I visited Kec. Jawai, which is on an island off the northern coast of West Kalimantan. The area is extremely remote it is over a three hour drive from Pontianak in a car and then a 45 minute ferry ride, then a bus for 30 minutes to reach the population center. I was not able to meet with any TRPs or group members but I was able to interview the Penilik who formed the groups at length.

In this district the Penilik formed five KBUs, each as separate TRP. All five TRPs were already producing the product the group was to produce when the groups were formed.

All members are Packet A participants and women. All TRPs are women also. The groups began in September 1996, only three are still active.

The groups made a variety of produces, a fish snack food, cakes, sewing and coconut oil. The Penilik observed that while the groups were able to begin production quickly there was a very limited local market for their product they made very little money and that is why two of the groups folded.

The groups that have remained active are succeeded for various reasons. The most successful group produces coconut oil. The were given a machine to press the oil worth Rp.850,000 from the Kabupaten. There is good local demand for coconut oil so the group is succeeding. The second KBU which is still functioning is sewing. Again the TRP had a sewing machine and good enough contacts to generate enough work to keep the group active. The third group which is still functioning, according to the Penilik, but doing least well is the cake baking group. They have persisted because they can produce a cake of sufficient quality to be sole in local shops.

The Peniliks ideas for producing more successful groups is to encourage groups to produce a product which can be sold off the island. He believes that there is a larger market for certain types of salted fish for example which can be made locally and then sold to distributors who are off the island.

The Penilik, reports that none of the groups have any banking relationships either for savings or borrowing. Groups in his experience have not accumulated any capital because they need all their income for living expenses.

Wedding Ceremony KBU

This group is one of two KBUs that were formed out of a successful Packet A learning group, all members are women. The TRP is a women who has been in the business for five years. The business is preparing brides for their wedding. The woman helps the bride do her makeup and hair and provides a traditional elaborate wedding dress. A typical bride will pay around Rp. 300,000 for these services.

The group was formed in the fall of 1996. During the first month the five members met three times a week to learn the skills. After that when the TRP got an order the members would assist her and be paid around Rp. 14,000 after several months individual members began to get jobs. When they did the TRP would provide advice and other KBU members would assist the one who had the job.

This KBU had kept financial records of their work. The records show growing revenues:

April Rp. 325,000
May Rp. 500,000
June Rp. 410,000
July Rp. 705,000 (Booked)

Profit margins are low around 15% however after paying the members who assisted, because the KBU must rent the dresses they provide the bride, and dresses rent for between Rp. 150,000 and Rp. 350,000. This takes up most of the fee the group receives.

The group would like to buy dresses so they could get the revenue from renting the dresses. The TRP estimates that they would have to Rp. 4,000,000 to buy a full line of dresses. This lead to a discussion of borrowing. The TRP was certain that you could only borrow from a bank if you had a land certificate to put up as collateral. She did not have a bank account and was unfamiliar with any of BRI's lending programs. The local Penilik held the same beliefs and was not familiar with any of the BRI's programs.

Another Cake KBU

This is the second KBU to be formed from the Packet A group. All members are middle aged women. The TRP is a women who has had a business baking and selling cakes to local restaurants for two years. She also bakes cakes and assorted goodies for weddings. This group also started in the fall of 1996, and for the first two months met 3 times a month. Now they just meet when the TRP has a large order for a wedding and produce on together.

The rest of the time the members and produce and sell on their own. Each member got the Rp. 20,000 learning fund individually, and used it to start their baking business. The members seem to be having modest success.

Two members interviewed reported that baked cakes (many are small cookie sized pieces) in the evening. In the morning they walk around and deliver the cakes to 10-15 small stores and coffee shops. At the end of the day they go back around and collect what wasn't sold and are paid for what was sold. One member reports she bakes 500 pieces each day. Materials cost Rp. 30,000. If all the cakes sell, she will get Rp. 40,000 in sales. Thus she will make about Rp. 10,000. On most days she reports she sells all but 20 or 30 cakes, meaning she generally earns slightly less than the Rp. 10,000. The second women had a similar operation but baked fewer cakes, just 300, and also reported making Rp. 10,000 per day.

I discussed borrowing with this group too. Again they did believe they could borrow without collateral and they thought interest rates would be much higher then they actually were. The women said they would like to borrow Rp. 500,000 to expand. They would like to able to package their cakes and sell in supermarkets. But they reported supermarkets did not pay daily so they need more working capital to carry through the start up period. When the terms available through the BRI were explained they said they were willing to borrow.

BRI Visit

I visited the main branch of BRI for the Province and interviewed staff about their microenterprise lending programs. The picture that emerged was somewhat different than portrayed in Jakarta.

Kupedes program.

This is BRI's primary program for microenterprises. In West Kalimantan in 1996 BRI made 7,500 loans outstanding with a balance of Rp. 8.8 billion, for an average outstanding balance of Rp. 1,067,000. This indicates that most loans are over Rp 1,000,000. In the program subbranches may approve loans between Rp. 25,000 and Rp. 25,000,000. After an application is completed loans will be processed with in two weeks, and often in as little as two days. To apply the borrower needs a photo identification, a recommendation from the Kepala Desa, and evidence of some collateral, which may land or possessions. There are five forms to complete. The loans are for between 3 and 36 months, and the interest rate is 2% per month. If the borrower pays promptly, the effective rate is lowered to 1.5%.

Surprisingly it was impossible to get the required forms at the main branch. The referred us to a subbranch. The subbranch was also unable or unwilling to produce the required forms, despite having a poster for the program on its walls. Calls to second branch revealed they also could not provide the forms. This indicates to me that accessing the program may be more difficult than it first appears.

PHBK Program.

This program is designed for small group enterprises like KBUs. Borrowers may borrow without collateral if they money on deposit in the bank. Not details were available about this program because it is only operative in one Desa, Ketapang. It has made few loans to date. Terms are similar to Kupedes

The SKACIL

SKACIL is yet another small scale credit program, which has not yet begun. Its purpose to supply credit through local pasars the loan officer will actually go to the pasar weekly to accept payments. Loans will be for less than Rp. 500,000. No land will be required as collateral but possession will be used. Terms are similar to Kupedes.

Medan Field Notes
June , 1997

Overview

During the first year of the Try Out KBU program North Sumatra has formed 100 KBUs with 500 members. Snackfoods are the most common product produced other products include: sweets, handbags, ice, rattan goods, woven palm mats, jamu, sewing, and broom making. Staff report the TRPs have improved the performance of the groups in comparison with earlier program models. They report some difficulty finding qualified TRPs in the more remote villages, and sometimes must recruit a TRP from outside the village.

Few if any KBUs have borrowed money from a bank. Several are believed to have borrowed from a local moneylender. No formal data on the groups borrowing is maintained in the Kanwil.

Records were available on the revolving loan fund. In some cases Kabupatten have retained the balance of the revolving loan fund in their own account. In other cases the balance have been turned over to the Kanwil.

North Sumatra Revolving Fund

Held by Kanwil	Rp. 9,869,950
Held by Kabupatten	Rp. 5,780,000
Total in Fund	Rp. 15,645,950

The program leader is interested in using the revolving fund to support groups which have been successful to expand, no immediate actions are planned. I believe he is waiting for more direction from Jakarta.

There was no summary report on the KBU program with data for the entire province available. I was able to look at data in detail for two KBU patten. It appears that Packet A completers make up around 25% of all participants or less. Women appear to make up about two-thirds of the participants. The most common products were food processing and candy making. A number of groups manufactured home industry type products, such a flower pots, brooms, woven mats and handbags. Staff believe snack food and other food processing are dominant because that is all that groups can afford with the limited learning funds. With an increase in the learning fund to Rp. 250,000 for a group of five he believes more groups may make non-food products.

In a discussion of why groups do not borrow the Kabid argued that first BRI will require collateral and that scares off most KBU members. Further he believes that among the

200 Peniliks in the province there are many who do not understand the borrowing process at all. He also believes interest cost will be high 2% to 3% a month. Further he say "Banks will not lend to a Tempe maker." There have been no official meeting between Dikmas and the BRI in recent years, at the provincial level according to the Kabid.

The Kabid believes that members still need training and business skills before the groups are formed and start learning production.

Field Visit to Binjai

There are three try out KBUs in Benjai all three were visited.

Candy KBU

The first KBU is officially two KBUs which has 10 members and the same TRP who was paid fees for two groups. The KBU is thriving candy business owned by the TRP. The enterprise makes five types of candies in the TRPs house. The candies are sold locally in a variety of stores. The TRP rents a car to distribute the candy locally. Larger distributors who distribute through out the province come to the KBU and make purchases. The volume of production is impressive three large kettles heated by large gas burners are cooking sugar syrup. I count over 20 employees working. On the porch of the house is packaged candy is stacked along the wall of house, a pile five meters long, a meter high, and meter deep.

Unfortunately this a KBU which is exploiting the program. The TRP/ Business owner collects the TRP and the learning fund for two groups, members work for four months unpaid. The TRP and Penilik claim the members will produce on their own after the four months, but there is no plan to get them the start-up capital they will need to get production started. Start-up costs are estimated to be Rp. 100,000. A more realistic scenario is the members develop skills they may continue to work for the TRP as daily laborers for a wage of Rp. 5,000 per day.

Tempe KBU

The Tempe KBU is more of a cooperative. The TRP is an older man who has been in the Tempe business since 1985. He brought in the members and formed a KBU because he wanted to expand. He has used the learning fund and the TRP money to get greatly increase production. In addition he has borrowed Rp. 3,000,000, as an individual from the BRI.. He will repay Rp. 270,000 for 18 months to pay off the loan. The group produces each day. One member will produce 13 kilos a day. The cost is Rp. 20,650. The finished product sells for Rp. 28,000. for a net profit of Rp. 7,350, for each member each day. The members sell at 28 local stores, through a net work establish by the TRP.

Members of the group appear to be men in their 20s or older who report they were unemployed before they joined the KBU.

Field Visit to Bakam

This area has eight KBUs that make: cakes, Tempe, snack food, small trading, ice and weaving. We were able to visit two of the KBUs one which makes snack food and one which does traditional weaving. According to the Kasi three of the eight groups are formed Packet A groups. They have not encounter any problems in finding TRPs for the groups.

An interesting finding here is that this Kabupatten still has its revolving fund and has applied to the Kanwil to use the balance in the fund to pay the cost of Packet A and B completers' examinations.

Meals on Wheels KBU

It was late in the day and we only able to visit one KBU in this area. The KBU is run by the TRP who had an ongoing business selling food, mostly noodles, satay and snackfood, from two carts. the TRP is a middle-aged man, who has been in the food business for years. Judging by his house he not substantially more affluent than his neighbors, cooks on a wood fire and has a thatched roofed house. In addition several women sell door to door cakes and snack foods from baskets. They also sell food to several local worongs. The members are neighbors of the TRP. They work in his house in the evening and early morning producing. Then three men peddle the carts loaded with food to various locations in the Village as much as 5K away. According to the TRP members are paid through profit sharing.

One member who had worked selling from the cart before the KBU was formed told us that day selling, morning afternoon and evening to almost 8:00 he earned Rp.12,000 in profit. The TRP reports that all members are paid through profit sharing.
A new cart costs Rp. 155,000 a use cart about Rp. 70,000.

The TRP reports that he used the learning funds and the TRP fee to pay off the local money lenders and as working capital, so that since he formed the KBU he has not had to borrow from the local money lender, and hopes to keep it that way.

Field Visit Asahan

In this area we visited three KBUs one that made snack food, one that did silkscreening and one that made traditional weavings.

Food KBU

The snack food KBU was one of the most successful I have seen. The TRP is relatively affluent, judging from her house, women. She is also candidate for the local legislature. She is middleaged, talkative and energetic. The TRP has a small catering business before starting the KBU.

The groups is made up of four local women ranging from 20s to 40s, who live nearby and were jobless, most have only an elementary education or less. The fifth member of the group is a man who is in charge of selling and delivering the product.

The group produces several types of cakes and several types of snack food. Products are sold to a variety of customers. In the neighborhood some cakes and snack food are sold directly to households. The group also sells to several restaurants and has been able to get its snack food into a super market.

I was unable to get any firm numbers on the volume of the groups sales. They work six days a week and seem to producing a significant volume of product. The pay arrangement is that each of women is paid Rp. 3,750 per day worked. In addition each for each day worked the TRP puts Rp. 500 into a bank account which will be paid out as an annual bonus. It is not clear how the man who does the sale is paid.

The key to this groups success is sales and packaging. Having a single person who has transportation and some skill in selling seems to have opened up broader distributing than is typical for this group. In addition the TRP has invested in clear stiff plastic boxes in which to package the product in standard volumes, and are then stapled shut. This makes a package which is easy to handle and transport, and which stores will accept. Packaging is relatively costly because they are purchased in relatively low volume. For example the large plastic box-like package costs Rp. 250 each, the complete product in the package only wholesales to the store for 600, making packaging costs 45% of the price. The product will then retail for RP. 1,000. The smaller packages cost Rp. 125.

This is an enterprise that is growing an improving the TRP has begun the process to get a government approved label for her products. This is possible in part because she expects her kitchen to pass inspection. She has clean kitchen, with electric mixer, and gas stove. Finally the TRP has bank accounts and when the time comes is prepared to borrow to expand.

Silk Screen Printing KBU

This KBU does silk screen printing. It makes a wide variety of products. announcements, flyers and invitations printed on paper. As well silk screening on small banners, football uniforms and tee shirts. The TRP is a teacher who knew the process and used to do occasional jobs for his school and other schools. He was in the silk screening business for about 3 years before the KBU was formed in March. At the request of the Keppala Desa and the Penilik he formed a group of five young men who were unemployed. The KBU has customers in four Kecamantans. Business is generated by the TRP calling on

organizations such as schools and social organizations and explaining the services the group can provide.

The TRP was not available for an interview, but I did interview the Penilik and two members of the group. The group makes the screen and does the actual printing on the products, the lay and design of what is to be printed are done else where. The KBU is not a full time operation. They generally work about 2 days a week. They are particularly busy before holidays and holy days, when many items must be printed.

How much the members earn is not clear. It appears they are paid through profit sharing on a job by job basis. The members gave an example of a job that generated Rp. 100,000 in revenue, in this case members would split Rp. 60,000 making Rp. 12,000 each. The members mentioned that they might be interested in starting their own business one day. They estimated it would take about Rp. 400,000 to get started and that would get the money by borrowing from their families.

Weaving KBU

This KBU was located Kecamantan Tiram. A poor seaside village. This KBU consisted of five women 20-22. The women have three home made looms and produce beautiful wedding sarongs and other weavings made by weaving silver thread and cotton thread into patterns on a cloth. The group works in the TRPs home. She is an experience weaver who before the KBU only produced for her own family.

The group has only been working for a few months and members are still building their skills. The typical product takes 3 or 4 days to weave, although a beginner will take 8 to 10 days. The cost of materials that go into a typical product is Rp. 13,000. Most of what is produced is sold to a distributer for Rp. 16,000 leaving only a Rp. 3,000 profit. The distributor sells to stores in Medan who in turn sell to the consumer for about Rp. 30,000. The KBU can sell the same product locally for Rp. 25,000, but demand is limited and they can't sell all they can produce this way.

Currently the group has no plans to try and capture more of the distribution chain, or to borrow to expand. The group is capable of making so very sophisticated products but seems to lack a clear business plan. The TRP is attempting to borrow the PKK women's organizations to get more supplies she has not considered borrowing from the a bank.

Lampung Field Notes
April 1997

Overview

During a one week visit to Lampung I was able to accomplish the following tasks:

1. Visit 13 KBUs set up under the new "Tryout program" and interview members and TRPs,
2. Visit five KBUs set up on earlier phases of the program,
3. Interview Kanwil staff,
4. Collect data from KBU proposal forms,
5. Inteview Dikmas Kasi,
6. Interview Peniliks.

I begin this summary with an overview of the try out program taken from the data available in the KBU proposals. Next I summarize what I learned about the program from ineterviews with Dikmas staff at all levels. Finally I profile the "Tryout KBUs I visited in some detail and describe the KBUs from earlier stages of the program.

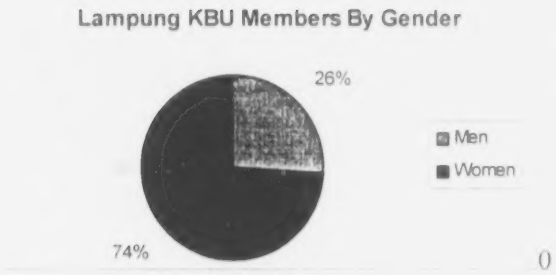
Status of the KBU Tryout Program

All "Try out KBUs" are new, and have begun work within the last two months. According to Kanwil staff they did not receive the new guidelines untill the later part of the fall. By the time Peniliks organized the KBUs and submitted proposals and money was finally dispursed it was late March. Since none of the KBUs has been operating for long it was impossible to collect any information about their medium or long term success or sustainability. What we have is a profile of the start-up period. According to Kanwil staff there was not new KBU activitity from June 1996 to March 1997.

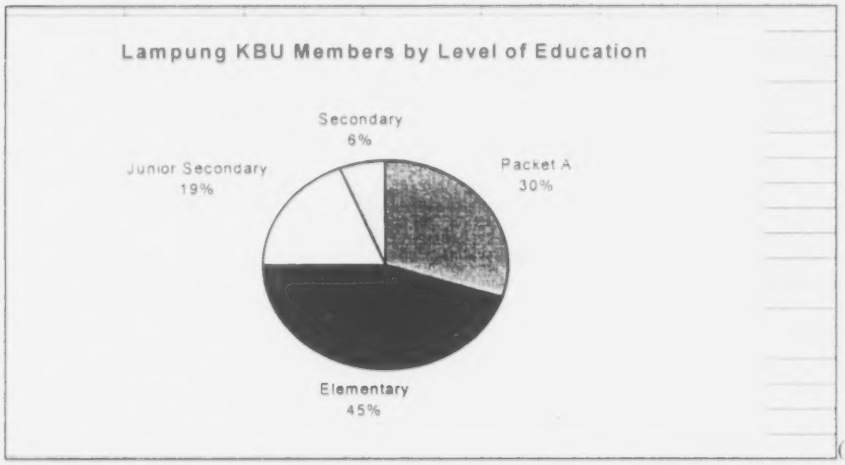
Little data was available on KBUs formed in earlier periods. I was able to visit five businesses which had received support earlier.

Characteristics of Lampung "Try Out" KBUs

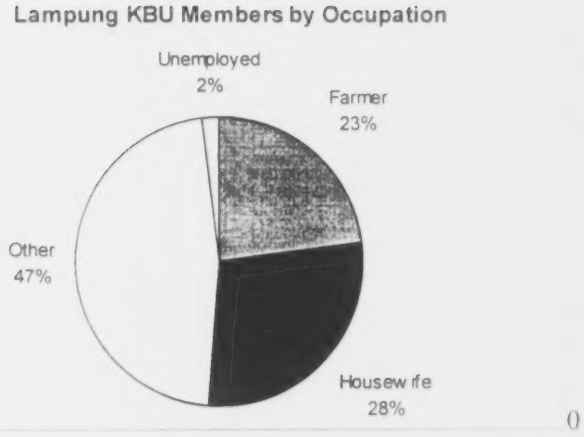
The Kanwil had completed proposals for 84 of the 100 KBUs established under the try out. Here we use data from the proposals to profile the entire population of "Try Out" KBUs. Overall the groups covered by the proposals included 449 members almost all of the groups had 5 members with just a few having 10. Average group size was 5.3. The data show that almost three quarters of the members are women.



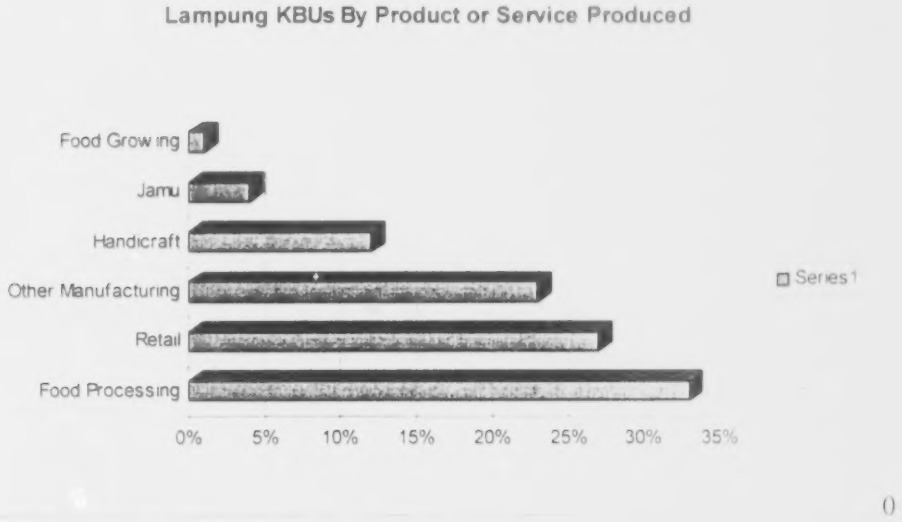
Proposal also contained the age of group members. The average age for all groups was about 30. The youngest group had an avergage age of 18 and the oldest group had an average of 42.



As the table indicates about 30% of the participants are packet A completers. What we found is that individual Peniliks either organized gourps made up of intact Packet A groups or they organized the KBUs without regard to the packet a groups. While the largest group of members had completed some number or years of elementary school, almost one-ffth had complete lower secondary.



As the graft indicates most members were employd when the KBU was formed, although over one-fourth were housewives. The 47% with "other" employment were in many cases already working in the business which the KBU was formed to support.



Food processing, particularly snack foods for sale in local markets was the most commonly selected business. This was followed by small scale retailing through Worongs, or other small scale retailing such as selling in the markets, or selling ice door to door. The other manufacturing catagory covered a host of products inlcuding brooms, bricks, tiles, and fencing.

Analysis of the funds awarded showed that most groups received the maximum of Rp. 220,000, made up of leaning funds Rp. 100,000 and payment to the TRP of Rp. 120,000.

From field work it appears that rather than being paid on performance most TRPs are paid Rp. 40,000 each month for three months or in some cases are paid up-front.

Administration of the Try Out KBU Program

A review of how the program has been implemented in the field clearly shows the importance of the Peniliks and the Kasi in determining the shape of the program. For example in some areas the Peniliks formed all the KBUs out of Packet A learning groups. It others no Packet A members are found. In some cases Peneliks put all the KBU resources into existing enterprises controlled by one person or one family, in other areas the Penelik formed cooperative groups.

The process in Lampung was fairly straight forward. The Penilik would recruit the members and arrive at some plan for producing. He or she will then also find a TRP. With the Kasi an application or proposal is then completed. The application consists of several forms. One describes the location of the group, the product to be produced, the responsible Penilik, the TRP and their qualifications and the amount of money allocated for the TRP and the KBU learning fund. A second sheet lists the group members, their age, education and occupation. A final page has a planned cash flow for the group. It is important to note that there is no learning plan. A sample proposal is attached.

The proposals are sent to the Kanwil for approval. Every proposal submitted was approved without revision.

The money is given to the TRP and group by the Kasi and Penilik. The groups are launched with not formal training from the Penilik, some TRPs are running formal training sessions on book-keeping marketing ,etc.

What Happened to the Revolving Loan Fund

According to Pak Samirun Ismadi, Kasi Bina Program, in Kanwil there is not provincial level accounting of the revolving funds.

In our visits were able to see hand kept ledgers with the revolving fund balances but not a bank statement. In Kabupaten Metro, three groups were still repaying. One staff in the Kabupaten was keeping a ledger on the fund and the fund was held in cash, not in a bank, there is Rp. 5 million in the fund and the last loan was made in October 1996.

In Kabupaten Tengu, the ledger showed a balance of Rp. 1,095,000. Only one group was still repaying. The ledger showed that 4 groups had completely repaid their loans and that three groups had defaulted.

In one Kabupaten, Lampung Selatan, we found each Penilik held the remaining funds and were not able to see any accounting.

Lampung KBU 1: *KBU as Private Training Course*

KBU Product and Arrangement

This KBU was learning to make wedding garments by embroidering textiles with golden thread in elaborate patterns. Textiles are tacked over rectangular wooden frames about one third of a meter high. Four women sit on the ground following a pattern to decorate the cloth. The work place in the Technical Resource Person's home. This is a local craft.

The KBU is essentially conducted like a course. The Technical Resource Person (TRP) is a Government (Dikmas employee) a leader of a Lembaga who knows the craft and is teaching to the young girls. He purchases the materials with the learning funds. The girls do not appear to work collaboratively. They are not trained in any of the business aspects of the craft. The girls come three times a week from 13:30 to 17:00 to work.

The TRP says it will take about 2 years for the girls to fully master the craft.

Characteristics of Members and Recruitment

While all members were women and in their teens, they came from a variety of life situations. One girl had completed SMA and had a part-time (one day a week) job in a tourist office. The other girls were unemployed and two had dropped out of lower secondary school, and one had completed. Non had participated in Packet A or B.

The women all reported that when they completed the training they hoped to produce sell the wedding garments on their own. The women who was the SMA graduate mentioned that she thought she could get capital from a co-operative, or the local money lender.

Three of the members were recruited through the TRP's personal network and the fourth was recruited by a volunteer who assists the Penilik.

Role and Background of Technical Resource Person

The TRP in this case appears to be a moon lighting government employee. He was in uniform during our visit. He essential runs the group like a private course. He buys the materials, instructors the girls, and them will sell the products and buy more materials.

How the KBU Operates/ Stage of Development

The groups have been operating for less than one month. The group has not yet completed or sold any products. The meet three times a week and embroider together.

Financial Position or Plan of KBU

The TRP reported that he has received Rp. 75,000, Rp. 25,000 a month It did not appear to be tied to any performance measures. The TRP reported that the Rp. 100,000 in

leaning funds was taxed and he received only Rp. 75,000. There was a bit of confusion about this, but it appeared to be his understanding.

The financial plan of the TRP is a simple one. The members will embroider the cloth and he will sell them to one of five stores in the area if they are of sufficient quality. Here is a break down of the expected costs and revenues.

Cost of materials:	Rp. 7,000
Price to Store	10,000
Net	3,000

The plan is to split the net profit Rp. 1,500 for the learner and Rp. 1,500 for the TRP. The capital recovered will be used for more material. There is not plan to build capital. Essentially each student will work as a subcontract to the TRP.

The TRP estimates the garments will retail for Rp. 17,000. He believes they can receive a better price from the store is the quality reaches "good standards".

KBU 2, Lampung: *The KBU as Employment*

KBU Product and Arrangement

This KBU produces three types of brooms. The KBU produces within a small factory. The owner operator of the factory is the Technical Resource Person. The factory employs 19 workers in addition to the five KBU members. Brooms are produced on a primitive production line with five steps. KBU members are trained in all five steps. The factory sells the brooms in local markets to local stores, and through a distributor exports to Jakarta, Taiwan and Germany.

Characteristics of Members/ Recruitment/ Plans for the Future

The KBU include five you men who are in their teens and dropped out of elementary school. All five you men are neighbours of the proprietor of the broom factory. The young men interviewed all reported they wanted to go on and make brooms on their own. One said he wanted to join with his friends to make brooms but it there did not appear to be any specific plan or time line.

Role and Background of Technical Resource Person

The TRP is the owner and operator of this small broom factory. Essentially he runs the KBU like an apprenticeship program. Interestingly he started his business with some type of small business loan of Rp. 2,000,000 from Depdikbud six years ago.

How the KBU Operates/ Stage of Development

KBU members come and work in the broom factory Monday, Wednesday and Friday for 5 hours. The KBU has only been operating for 1 month. The learners are paid Rp. 600 for each day they work. If the brooms they make, they make about 20 a day, sell they get a bonus of Rp. 3,000. I am assuming this I for each worker but it wasn't completely clear.

Financial Position or Plan of KBU

As noted before these KBU members are essentially employees. The TRP said when the members are trained he would buy raw materials and let them produce in his factory. He noted that to start broom making requires a minimum of Rp.1,000,000 for equipment and materials. There is no method for KBU members to accumulate capital.

When asked about lending the TRP did not think bank lending was possible he himself borrows from the local Chines money lender.

KBU 3, Lampung: *The KBU as Co-operative*

KBU Product and Arrangement

The KBU comes close to fitting the intended model. The KBU is officially two groups of five women. In practice it is a single group of 10 women who all sell traditional herbal medicine (Jamu) door-to-door. Each women has here own territory and buys her own raw materials, cooks the medicine and then sells it. The women all participated in a Packet A group and complete all 100 units, and then passed the elementary equivalency examination. The have high spirits and seem very enthusiastic about the group.

Characteristics of Members/ Recruitment/ Plans for the Future

The group is all women in their early 40's. They all appear to have children. The all knew each other before they joined the Packet A program and have remained friends and neighbours through the group. The groups have been together since 1992! Each member said they hoped to expand their sales by creating more products and getting more customers. Mostly the group functions as a self-help group.

Role and Background of Technical Resource Person

The TRP is a women with a job in private business. She is not in the herbal medicine trade, rather she was the Packet A instructor and continues on as the TRP. She seems extremely proud of the groups achievements, but she does not dominate the group rather group members seem to be self-motivated.

What the instructor has done is help each member set up a simple booklet where record all their transactions. What materials they have bought, how much at what price. They also record sales.

How the KBU Operates/ Stage of Development

The women meet on Monday nights and go over their notebooks. The TRP helps them keep them up to date. I inspected a couple books and they were complete. The KBU has been operating for less than a month but, entries for that period were complete.

Several women pointed out that the simple book keeping had helped them understand their expenses and revenue. They are more aware now of what they need to sell to raise the money required for school fees, and other significant expenses.

My impression is that KBU provides a vehicle for socialising, exchanging information, and exercising self discipline, learning new skills, and in general expanding the positive experience they had in the Packet A group.

Financial Position or Plan of KBU

Since each women is an independent operator, there is financial plan for the group. Each women got Rp. 15,000 at the beginning of the KBU (this appears to be the Rp.100,000 minus the Rp. 25,000 tax) It does appear that the TRP has created a savings plan where each women puts in Rp. 500 each day she sells. The TRP records the deposits and hold the money. It was not completely clear if these saving are pooled, it appeared that accounts are kept on each woman's savings. Again this system has only been working a week or two. The goal of the savings is not to expand the business however but to have money to pay for major expenses such as wedding and funerals.

KBU 4, Lampung Selantun: ***The Klanting KBU***

KBU Product and Arrangement

This KBU seems to come close to the intended model. It actually two official groups of five members which work together to produce a snack food from casaba root called Klanting. Essentially raw cassava root is ground up into a paste, spiced, formed into rings, dried in the sun, then fried in how oil to make a snack. 100 rings are put into a bag and sold for Rp. 400.

The groups were brought together by the Penilik using a Dikmas "volunteer" who is also a Packet A tutor to organize the group. As noted before it actually one group, but the Peniliks in the province believe KBUs are to have five members no more no less, so two groups were officially formed.

Characteristics of Members and Recruitment

The members are both men and women, some have been in Packet A classes some have not. They are all neighbours and come from several different families.

Role and Background of Technical Resource Person

The technical resource person did not appear to have any special skills or experience with the market. He did appear to be able to help the group organize, get to the product to market and keep track of the money.

How the KBU Operates/ Stage of Development

Like all the "Try out" KBUs in this district it has only been operating for a month. But the group has produced and marketed its product for several weeks. Enthusiasm for continuing seems to be high. The KBU has had some success and members want and expect it to continue.

The two groups appear to work in teams sharing equipment, which is limited, and supplies. The groups produce three days a week and then take the product to the local market once a week. Supplies are available from the market and form a near by cassava plantation.

The group would like to expand production, it is doing some small amount of saving, but has not immediate plan for expanding to additional markets or buying more equipment

Financial Position or Plan of KBU

The TRP has kept fairly good financial records of how the initial learning funds were used to capitalize the KBU, he tracks expenses and revenues, and was able to describe the profitability of the KBU.

It costs Rp. 27,500 in supplies and Rp.7,000 in transportation costs to produce and market the product made from 100 kilos of cassava. This brings in about Rp. 460,000.

The profit is divided this way.

Each member wages of	Rp. 3,000	300,000
Each Group	Rp.6,500	13,000
Savings for Project		10,000

I suspect given these numbers that the actual profit is less than implied by the cost and revenue figures.

It is interesting to note that there are five other groups in the village producing Klanting, which are not KBUs so the market is competitive.

The KBU is not interested in borrowing. They are afraid they will not be able to repay the loan. They do not think they could approach the bank because it would be "very complicated" There is not local money lender but if there was they believe the cost would be exceptionally high, as much as 100% per month.

KBU 5, Lampung Selatan: *Jamu Again*

KBU Product and Arrangement

This KBU consists of five Jamu sellers who each sell, traditional herbal medicine, to a small territory within the village. Each women has an established set of customers and produces and sells individually. They all know how to produce Jamu before they formed the KBU. Again the TRP is a Dikmas volunteer who assists the Penilik. Only one member was available for interview so results on this group are limited.

Characteristics of Members and Recruitment

Group is made up of women. I do not believe any are Packet A completers.

Role and Background of Technical Resource Person

Again technical resource person is a Dikmas Volunteer with no special Jamu skills. It is not clear what he contributes other than distributing learning resource funds.

How the KBU Operates/ Stage of Development

Each women produces and sells on her own. It does not appear that the group meets together regularly. The women interview noted that the availability of the learning fund allowed her to expand her wares from substantially, and she would like to expand more. She as also involved her husband in producing the Jamu.

Each women makes the Jamu in the morning and spend about one hour selling the Jamu each day.

Financial Position or Plan of KBU

According to the member interviewed it costs about Rp. 2,500 to produce a basket of Jamu containing 4 or 5 bottles. The basket will generate about Rp. 5,000 in sales.

KBU 6, Lampung Selatan: *KBU or subsidized family business?*

KBU Product and Arrangement

KBU Dahlia, is a officially five KBUs each with 10 members. The five TRPs are members of the same family, one was a Packet A tutor. The family is the family of the assistant headman of the village. The members are all women and residents of the village.

The KBU produces a snack food from nuts called Emping. Essentially nuts are roasted in hot sand, cracked open and the meat is removed and smashed flat with a hammer. Several nuts may be smashed together to make a pancake. The flattened nuts are dried in

the sun, spiced and fried in oil and sold as a snack food. Several different types are produced.

The family leading the KBU have known this process for many years.

The father of the family buys nuts in Lampung, rotating groups of members come to the families house and produce three times a week for several hours. During production the groups are very social, chatting and laughing. The groups produce about 15 kilos in a week.

The availability of nuts is a constraining factor, as they are currently out of season and expensive reducing the amount produced. All product is sold within the village and according to the father there is more demand then they can meet.

Characteristics of Members and Recruitment

Members are all women and according to the Penilik they are all Packet A completers. There is not continuing instruction as part of the KBU however. The women interviewed appeared to be motivated and were happy to be part of the KBU. They planned to continue as members.

Several members interviewed said they would like to start producing on their own, but had not concrete plans to do so. The cost of starting up according to the TRPs is Rp. 200,000.

Role and Background of Technical Resource Person

As noted before all five technical resource people are members of one family: grandfather, grandmother, father, mother, oldest daughter. The father is the assistant head man.

How the KBU Operates/ Stage of Development

The KBU has been operation for a little more than one month. Leaning funds were used to capitalize the production, woks, hammers, jars and bags for the product were, purchased as well as consumable raw materials. Product is produced and marketed weekly.

Financial Position or Plan of KBU

Financial records of the first month had been kept and were available. But it was had to get a clear picture of costs, revenues and profits. Production costs about Rp. 150,000 a week. To produce about 15 kilos of product. A kilo sells for Rp.12,000 to 15,000 depending on the market. Thus a profit of between Rp. 2,000 and 5,000 is made on each Kilo, members are paid Rp. 1,500 for each Kilo produced.

According to the books the KBU is saving 10,000 a week to build capital. These figures if correct would imply minimal earnings for the participants.

The father and leader of the KBU said he planned to borrow to increase production in July when nuts are in season. He said he would take out the loan personally and not put the KBU members at risk of repaying. He sees them as employees. He says he can borrow from BRI without collateral because he will get the endorsement of the headman of the village. He expects to borrow Rp. 1 million at about 1.75% a month interest.

KBU 7 and 8, Lampung: ***The KBU as Political Patronage***

KBU Product and Arrangement

In this village there are two KBUs. The TRP for both KBUs is the village head man. One KBU is a family of five which produces Klanting, a snack food from Cassava. The second KBU consists of Headman's son and his wife. They raise chickens. We were only able to meet with the family KBU and notes are restricted to them.

My general observation is that in this village the Penilik is new and the head man of the village simply seized the program as an opportunity to make some money for himself and his supporters and family.

Characteristics of Members and Recruitment

The members a family, father who is rice farmer, wife and three teenage children. The headman "organized them". They were already in the business of producing Klanting, before they formed a KBU. They received Rp. 100,000 in learning funds and used Rp. 50 to buy equipment, buy a new gas stove, and the remaining Rp. 50,000 for supplies.

The family members were in Packet A and completed unites 1 to 20.

Role and Background of Technical Resource Person

As noted he is the headman of the village he appears to play no role other than "hold" the savings of the two groups.

How the KBU Operates/ Stage of Development

As indicated this was an established family micro enterprise. They produce three times a week and sell at the local market and plan to continue. They believe they could sell more product and would like to expand by getting better equipment

Financial Position or Plan of KBU

While the KBU could provide a clear picture of their costs of producing, they did seem firm that they made a weekly profit of Rp. 57,000. They save Rp. 5,000 or 10,000 every 15 days which the head man sells. The father of the family said he would not be willing to go to BRI to borrow to expand. In the six weeks they have been operating as a KBU they have accumulated Rp. 50,000 in savings.

KBU 9 and 10, Lampung: ***The KBU as Micro-enterprise consortium***

KBU Product and Arrangement

These are two KBUs that essentially function as one. Peniliks have the idea that groups can't have more than five members so if they have more potential members they simply form a second group. This also means he is closed to target number of groups and TRP gets a second payment. They a group of small retailers in the urban center of "Metro" District. Five members sell Jamu (traditional medicine) 4 sell ice, and one runs a small shop (Worong) from the front of her house. They have been functioning as a KBU since the beginning of April.

Characteristics of Members and Recruitment

The group is made up of men and women. The Ice sellers are men and the Jamu and Worong sellers are women. None of the members completed Packet A and all have an elementary school education.

Role and Background of Technical Resource Person

The TRP for both groups is a young energetic man who has experience with co-operatives. In the past he served as secretary of a Jamu co-operative. He also works for an insurance company, it appears selling policies and collecting payments in the area.

How the KBU Operates/ Stage of Development

The groups have been operating since the end of March. Members each got Rp. 20,000 in learning funds. Each member is their own micro-enterprise. Most used it to expand their inventory, by buying more raw materials. The KBU members meet once a week with the TRP to learn book keeping and selling skills. The TRP's goal is to ultimately organize the group into a co-op.

Financial Position or Plan of KBU

KBU members save Rp. 500 a day with the TRP. Individual members report that the learning funds have allowed them to produce and sell more and thus increase their earnings. For example the women who operated the Worong, small store, used her learning funds to expand here inventory, which lead to an increase in revenue of between Rp. 3,000 and Rp. 5,000 a day.

None of the members had experience borrowing from a bank, nor were they interested in trying. Some had borrowed from the local money lender and reported that to borrow Rp 10,000 from the money lender cost Rp. 350 a day, or 105% a month.

KBU 11, Lampung: ***The KBU as Successful Learning Group***

KBU Product and Arrangement

This KBU fits the model. It is a former Packet A learning group of ten members. The women all grow and sell vegetables on local plots. The group has been together since 1993.

Characteristics of Members and Recruitment

The members are women in their 30s and 40s. All the women were in a Packet A learning group and completed all 100 modules. They continued on as a KBU. You can see that women have high morale, and good relationships with each other and with their TRP.

The women were eager to point out how completing Packet A had helped them improve their productivity growing vegetables. That they better understood how to use fertiliser and pesticide.

Role and Background of Technical Resource Person

The TRP is the former Packet A tutor. She is an elementary school teacher, third grade. She is young and energetic, and seems to have excellent rapport with her group. She says she has expertise in growing vegetables.

How the KBU Operates/ Stage of Development

The KBU has been operating for about a month. They only received Rp. 100,000 in learning funds despite having 10 members, so each women got Rp. 10,000. Since each women produces and sells on their own they used the money in different ways. Most bought seeds and fertiliser, some bought tools. The women sell at three different markets, but they do not sell every week, since they can only sell when a crop is ready.

The group is scheduled to meet once a month, but meets additional times if there are issues to be taken care of. In the meetings the TRP helps with issues of marketing and producing. Recently they worked on how to select good seed.

Financial Position or Plan of KBU

I could not get any firm financial numbers on the women. But they do have savings plan which they used a shared pool of capital. To-date they have accumulated Rp. 50,000 in savings. The women contribute Rp. 500 "here and there" mostly I thing when they are selling. Individual women may borrow up to Rp. 5,000 from the pool, they have use of the capital while their crop is growing when the crop is ripe and goes to market they must repay.

The women did not believe they could borrow from a bank and did not want to. They were much more comfortable using their pooled capitol.

KBU 12, Lampung: *The KBU as Youth Program*

KBU Product and Arrangement

This KBU "Besek" made small woven baskets out of bamboo which are used for packaging food. They are sold out of the village to a single buyer from the city. They began work in March. They chose baskets because they are easy to make and sell. The members produce individually but sell as a group through the TRP to the single buyer.

Characteristics of Members and Recruitment

There are five members are all young women, who completed packet A up to unit 20. It appears that there are other young women, some in middle school, who work with the group producing. When introduced to the group there were nine young women working.

Role and Background of Technical Resource Person

TRP was a women and former Packet A, tutor. She know how to make the baskets and had a connection to the seller.

How the KBU Operates/ Stage of Development

The group was organized in late 1996, but did not begin work until the leaning funds arrived in March, 1997. The members produce on their own but meet twice week, to discuss problems and how to improve quality. The Rp.100,000 in learning funds was use to buy simple tools and the bamboo which is the only raw material.

Financial Position or Plan of KBU

The baskets sell for Rp. 100 each. Each members is paid Rp. 40 for each basket they produce. It was never clear how many they produce and sell in a week. They did claim and individual could make Rp. 7,000 a week, which would mean producing 175 baskets in a week.

The group is saving and has accumulated Rp. 68,000. It not clear how the savings will be used. The TRP said the group plans to borrow Rp. 1 million from BRI next year and will form 1-2 more groups to increase production.

KBU 13 Lampung: *Klanting and Jamu Again*

KBU Product and Arrangement

This group of five older women, produces Klanting (snack food) and Jamu herbs and spices. They sell in two local markets and a Worong (local store). They produce and sell as a group and divide the profit into five equal shares.

Characteristics of Members and Recruitment

The women are in their 30s and 40s. They all completed up to module 20 in packet A.

Role and Background of Technical Resource Person

Same technical resource person as the basket group, a former packet A person.

How the KBU Operates/ Stage of Development

The women generally meet twice a week to produce and then sell weekly at the local market. The meet more often if they want to produce more. They spend their Rp. 100,000 learning funds on supplies, such as plastic bags for products, and raw materials. The women have been in this business for some time and seem to understand it well. They do not appear to rely on the TRP for help.

Financial Position or Plan of KBU

Sales seem to vary substantially week to week as does production, so it was hard to get firm numbers. They did say they earn about Rp. 37,000 from the sales of Klanting. The group has saved Rp. 100,000.

The group seemed eager to expand. They said that they would like to produce more product and sell in additional markets. They said they planned to borrow, Rp. 1.5 million from friend in the near future to expand production.

Previously Established KBUs

In each Kabupaten I asked about groups formed during earlier periods of the program. At best the Kasi or Penilik could identify a couple groups that were still active. For example, in Kabupaten Lampung Selantan, there were three groups still active, who had successfully repaid their revolving loan fund, all made furniture.

During the visit we able to see five KBUs which had received support under early phases of the program. In all but one case the KBU were established small business with employees who received loans through the Dikmas program and repaid then through BRI. The KBU included:

- A brick maker, who also made ceramic work,
- A tailor,
- An autobody repair shop,
- A welder who made fences and irrigation gates.

If these businesses are representative the program was essentially a small business lending program. It is interesting to note that each of these businesses went on to borrow on their own from BRI and continued to expand their businesses.

The one other model we saw was family group that produced snack food for sale in the market. They had continued to operate after receiving the support of a direct loan from Dikmas.

Appendix B

Field Interview Guides

- Dikmas Staff
- KBUs

Interview Guide Local Dikmas Staff

1. **Please describe the complete scope of the KBU groups that are operating and how they are supported?**

   How many groups have you started under the "Try Out Program of the NFE III?

   What records do you have on these groups?

   What types of products are these groups producing? How successful have they been? What is their sales volume?

   Can we visit some of these groups?

   Are you still forming KBUs outside the Try Out Program? (For example KBUs in non-intensive Kecamatan) How many? How successful have these groups been? Can we visit some of these groups?

   Are there KBU formed under the earlier phases of NFE still operating? How many please describe them.

2. **Are other government agencies or NGOs creating income generating groups in this area?**

   Please describe? Has the Dikmas program co-operated with this groups? How?

3. **Does this Province or Kecamatan still operate a revolving fund?**

   If yes how does that work? Who holds the fund? What is the repayment rate?

   What descriptive information do you have on the borrowers?

   Is the BRI involved? How does that work?

4. **What are the backgrounds of the individuals participating in the KBUs under the tryout?**

   How many participants have completed Packet A or Packet B?

   How closely linked are the these programs with the KBUs?

   How do the activities of KBUs support and extend the learning that took place in the basic education component?

Do many KBU participants have previous work experience? What kind?

4. **A new feature of the "Try Out Program" is the use of Technical Resource people to support the KBUs. How has this approach worked out for you?**

Were you able to find the Technical Resource People you need?

How did you recruit them and select them?

What is their background? Have they operated a small enterprise? Could give you give an example? Can I talk with some of the technical resource people?

How have you compensated the Technical Resource Person(s)?

What problems have you had with the approach? For example do Tech. Resource People live close enough to KBUs? Is there friction or conflict between the Tech. Resource Person and the groups?

How effective has this approach been compared to the using the instruction modules that were used in the past?

5. **The "Technical Guidelines" for the tryout program suggests there are four models for forming the groups. How common have each type of group been?**

Model I: Learning funds used for procurement of equipment and materials.
Materials used only for Learning purposes.
Technical Resource Persons helps group achieve credit.

Model II: Learning funds used for equipment and basic material.
Tech. Resource Person guides production and achieve quality, market product.
Profit retained to build capital.

Model III: learners are skilled but lack capital to start.
Learning funds used as start-up capital.
Technical Resource Person guides start up, assists in maintaining financial accounts.

Model IV: Learners have an on-going commercial undertaking, lack capital to expand.
Learning funds used to increase capital.

Is the RP 20,000 or RP 50,000 adequate to get groups started under any or all of these models? If no why? How much is needed?

6. **Another feature of the "Try Out Program" is a focus on linking KBU groups to other sources of credit, such as other government programs, banks or NGOs, how is this working?**

   Do you have systematic relationships with any sources of capital for KBUs?

   If yes, who are they? How did you establish the link?

   How many groups have they supported? How much do they usually lend? On what terms do they lend?

   Have you attempted to make links to the IDT program? Program where state enterprises spend 2.5% of profit on small business. Ministry of Agriculture P-4k program?

7. **Overall how would you say the "Try Out" KBU program is working out?**

   What have the biggest improvements in the program been?

   What problems have you encountered?

   What changes would you recommend in the program?

8. **(Lampung Only) In the new fiscal year you will try the new "Empower the Village program", how will this program work?**

   How is this program different from the current KBU program?

Documents to Ask For:

- Special Report for each KBU, from Guidelines
- Kasi Dikmas "Try Out Proposal"
- Any other data on KBUs or related programs
- Records of the revolving Loan Fund

Field Protocol for Visiting KBUs

Province:_____

Kecamatan:_____

1. **Could you describe for me how your KBU formed and got started?**

   How long ago was the group formed?

   Members participated in Packet A or B or (KF) Functional Literacy Training?

   Did this enterprise exist before you joined program the Dikmas KBU program?

2. **Describe your enterprise now.**

   Is you enterprise still active?

   Number of members?

   Members backgrounds and characteristics? Were members employed before they joined the group? Was their work related to the KBU's work?

   Do you work and sell as an individual or a group?

   Did you borrow and pay back as a group or an individual?

   Products produced. (Could I see the products)

   Why did you choose this product or service to produce?

   How and where are products marketed?

   Retailed to individual consumers or sold to stores or businesses?

   Sold locally in Desa, or Kecamantan or farther?

3. **Could you describe your finances for me?**

How much do you produce in a typical week?

How much do you sell in a typical week?

What does the product cost to produce?

What price do you charge the customer?

How is it going? Do you make a profit? If you do make a profit? How is it distributed? Retained in the group? Allocated to members? How?

3. **What assistance has your KBU received?**

Did you participate in any training?

The three day course? The Ten Modules?

From Dikmas staff? Describe (Help forming, training, guidance, capital)

From a Technical Resource Person? Describe (Help forming, training, guidance, capital)

From an other Government agency or NGO?

4. **How did you groups raise the capital to get started?**

Groups own resources? Dikmas learning funds? Have you received funds from Dikmas more that once? Funds from other government program? Funds from NGOs?

5. **Where will your enterprise go from here? Do you plan to expand? Close? Add members? Produce other products?**

7. **What type of additional assistance would be useful to you?**